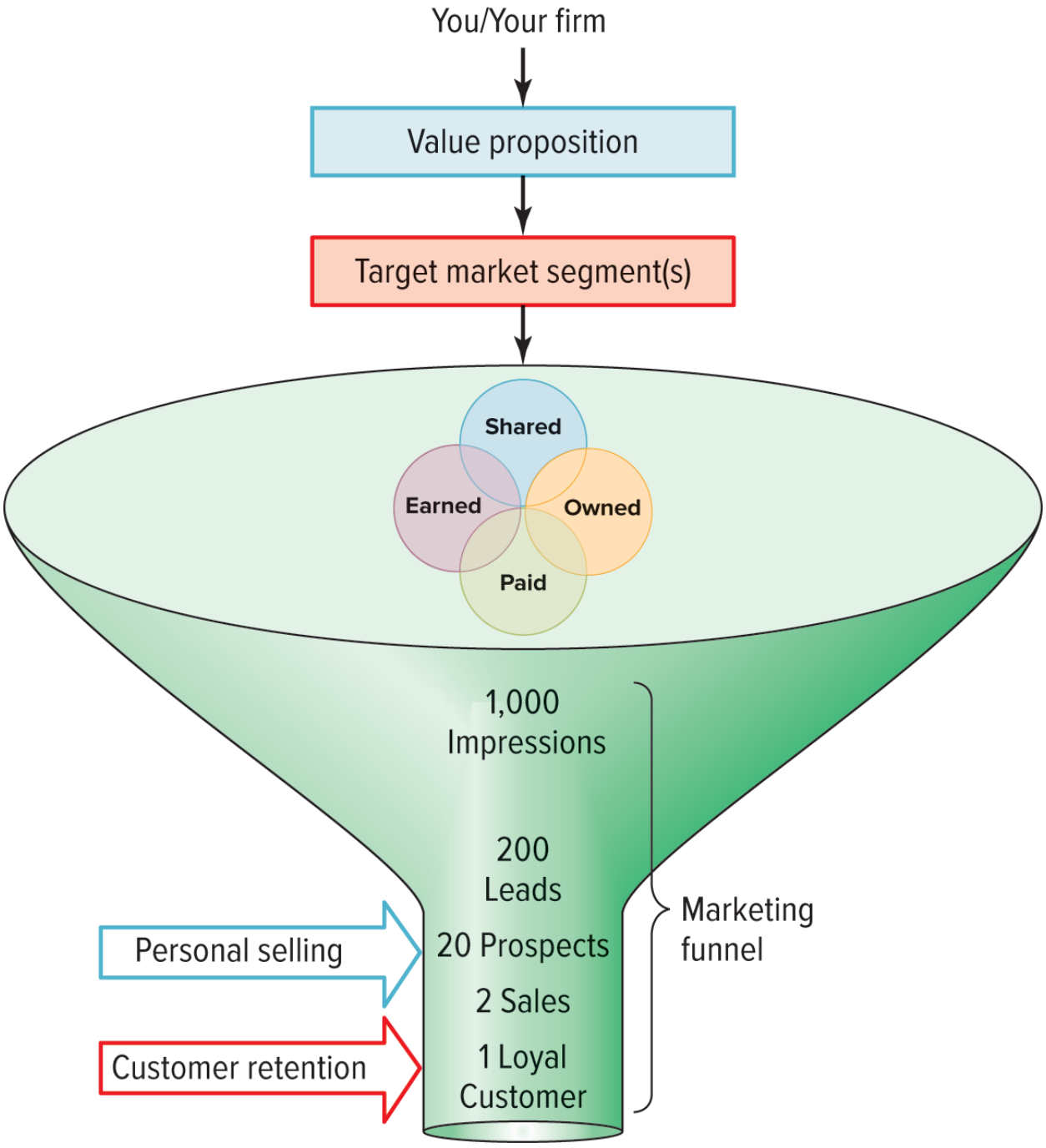
CHAPTER 10 Small Business Promotion: Capturing the Eyes of Your Market Page 333 LEARNING OBJECTIVES After you complete this chapter, you will be able to: LO 10-1 Describe the marketing funnel and the stages in the customer development process. LO 10-2 Recognize the PESO model of the promotional media landscape LO 10-3 Apply the key skills involved in personal selling, especially closing the sale LO 10-4 Recognize the major approaches to customer retention. LO 10-5 Identify sales forecasting methods. • Addie Swartz's lifestyle brand, Beacon Street Girls, is aimed at two market audiences. What challenges are posed to this small business by its double-pronged approach? How might this approach work to Swartz's advantage? Source: B*tween Productions, Inc. Focus on Small Business: Addie Swartz and Accessories for Girls Who Are "between Toys and Boys"1 As Addie Swartz's two daughters approached the pivotal "tween" years, she—like many mothers—struggled to find something to help her girls bridge the gap between Barbie and Beyoncé. Frustration stoked her entrepreneurial spirit, and the Beacon Street Girls, a new lifestyle brand for girls ages 9 to 13, was born. NO DOLLS OR ICONS The Beacon Street Girls invites tweens into a rich and exciting contemporary world in which values matter, friendships are everything, and community service is important. In promoting the brand, Swartz comments that all of Beacon Street Girls's marketing initiatives need to understand and speak to two audiences: tween girls and their parents/older gift-buying relatives. Their goals are to: Build awareness among stakeholders. Create interest and desire in tweens to engage with the brand and share with their peers. Drive customers into the stores to seek and purchase Beacon Street Girls products. Encourage tweens and their parents to come to the website. Marketing programs are aimed to promote retailer presence, push to the web, and leverage the tween consumer to promote the brand via web-based viral marketing programs. In describing her market further, Swartz divides the market into two segments, the primary and secondary. The primary market consists of girls ages 9–13 years, with the "sweet spot" being the older 11- to 12-year-old tween. These girls are entering middle school, a time of new friendships, body changes, and growing-up experiences. They are media-savvy, looking for fun and possibilities, admiring of teenagers, but still want to be kids. They are in the early stages of navigating the often rocky waters of adolescence and desperately want to fit in. The secondary market consists of their mothers, fathers, aunts, uncles, and grandmothers who seek positive role models and messages for their daughters/relatives. Page 334 DISCUSSION QUESTIONS What are some ways that Beacon Street Girls can promote its brand in order to meet the company's goals? What ways can Beacon Street Girls market to the tween girls? How can it also reach the parents of the tweens? In what ways is the marketing message different or the same? How can Addie Swartz continually develop and promote the brand that has meaningful, value-driven tween girl properties that are also relevant, cool, and realistic?

The Need for Promotion 10-1 Describe the marketing funnel and the stages in the customer development process. In Chapter 9 we talked about two processes for approaching new firms, products, and services. One was the product development process. The other was the customer development process, which we will discuss further here. In order for customers to purchase your goods and services, you must first go to them. You need to advertise and actively promote your business before you can expect inquiries into what you have to offer. While there are a handful of promotional means that are standard for all business ventures, entrepreneurs' limit to promotions is their own creativity. For a long time, the process of selling to customers has been thought of as a funnel, like the one shown in Figure 10.1. The idea is that to some extent, marketing is a game of numbers. To get people to buy what you are offering, you first need to make an impression on them, letting them know who you are and what you are offering. Those who have some interest become your sales leads and the most interested ones become your prospects for a sale. So at a fundamental level, promotion drives sales. How many prospects? Marketers talk about the marketing funnel, a rule of thumb about how many prospective customers it takes to find one who will actually make a purchase. For mass-market advertising the typical ratio is 500 to 1, while for Internet advertising, it is 1,000 to 1.2 Figure 10.1 graphically shows you the promotion process and how the marketing funnel fits into it. FIGURE 10.1The Promotion Process and the Marketing Funnel Page 335 The marketing funnel still works to give a sense of the contributing factors in promotion and sales, and a sense of the numbers, but Silicon Valley serial entrepreneurs Steve Blank and Bob Dorf came up with a more inclusive approach for the customer development process. In their approach, there are major goals: (1) get customers, (2) keep customers, and (3) grow customers. This builds on the idea that finding new customers can cost 5, 10, even 25 times as much as getting sales from an existing customer, depending on your industry and sales model. Or try it this way—what is the easiest way to increase your profits 100 percent? According to the research, just keep one more customer out of every 20 (i.e., increase your retained customers by 5 percent).3 That ability to increase sales resulted in Blank and Dorf creating a new funnel, which focuses on ways to grow sales to existing customers. The resulting double-sided funnel is seen in Figure 10.2. It expands "customer retention" from Figure 10.1 to reflect a range of specific steps you can take as an entrepreneur. FIGURE 10.2The Customer Development Funnel for Physical Products Taken from Figure 4.11 of The Start-Up Owner's Manual, ©2016, Steve Blank and Bob Dorf, used with permission. The steps in the "Get Customers" funnel on the left are the same as are found in the traditional sales funnel. They build from the same advertising, public relations, sales promotion, social media, and direct marketing efforts shown in Figure 10.1. The steps are: Awareness: Is the process of getting your message out as much as you can to your target market, or if you are unsure about your target market, to the people in your

intended service area. Your goal is to get a subset of the people who see your message to take the next step and express interest.  Interest: Is the process of prospective customers taking some action to learn more about the product, service, or your company. This can be through looking at your website, catalog, or store. It could be from checking for more information from third-party sources such as friends, family, review websites, magazines, or the like. The goal is for potential customers to get the information that leads them to include your product, service, or firm as one of the prospective purchases they are thinking about.  Consideration: Is the process of getting into the prospective customer's final list of brands of products or services they are considering for purchase, and doing what you can to help tip their decision in your favor, through customer contact, providing information, experience with the product (e.g., samples, test-drives, etc.), or pricing information, including discounts and coupons if you use these in your business.  Page 336  Purchase: This is the end of the initial promotional funnel, where a person buys your product or service and becomes a customer of your firm.  We will cover the Keep Customers and Grow Customers sections of the funnel later in the chapter when we discuss customer retention methods.  The model is designed for selling goods and services in the physical world, where you actually can hold the product in your hands, or have the service delivered by a person at some physical location (a store, shop, or your home). There is a slightly different version of the Blank and Dorf funnel for Internet-based businesses, shown in Figure 10.3. FIGURE 10.3The Customer Development Funnel for Web/Mobile Products  Taken from Figure 4.17 of The Start-Up Owner's Manual, ©2016, Steve Blank and Bob Dorf, used with permission.  The left-hand-side funnel has only two steps, acquire customers, usually through web and phone contacts (although traditional media may be the source by which prospective customers hear about you), and activate a customer, which can be as simple as their signing up for a website, or giving their email address or phone number.  All three funnels illustrate selling to the general public, but what if you could target people you already know have a reason to be interested in your goods or services? Maybe one or two people in a thousand would buy a baseball glove, but what if you could target people playing baseball? Instead of 2 sales per 1,000, with qualified leads like people already playing baseball, you might be able to sell 10 times as many gloves, or more.  Following the funnels, in this chapter we will talk about getting customers, defining your target market, and determining how to identify segments like those already playing baseball. We discuss the methods of promotion including social media, public relations, and press relations. We then get into the methods of selling to and keeping customers, and focus on a discussion on managing postsale relations in order to grow sales. The end of the chapter includes a deeper dive into predicting sales, which is useful when you are creating business plans and marketing plans for your firm.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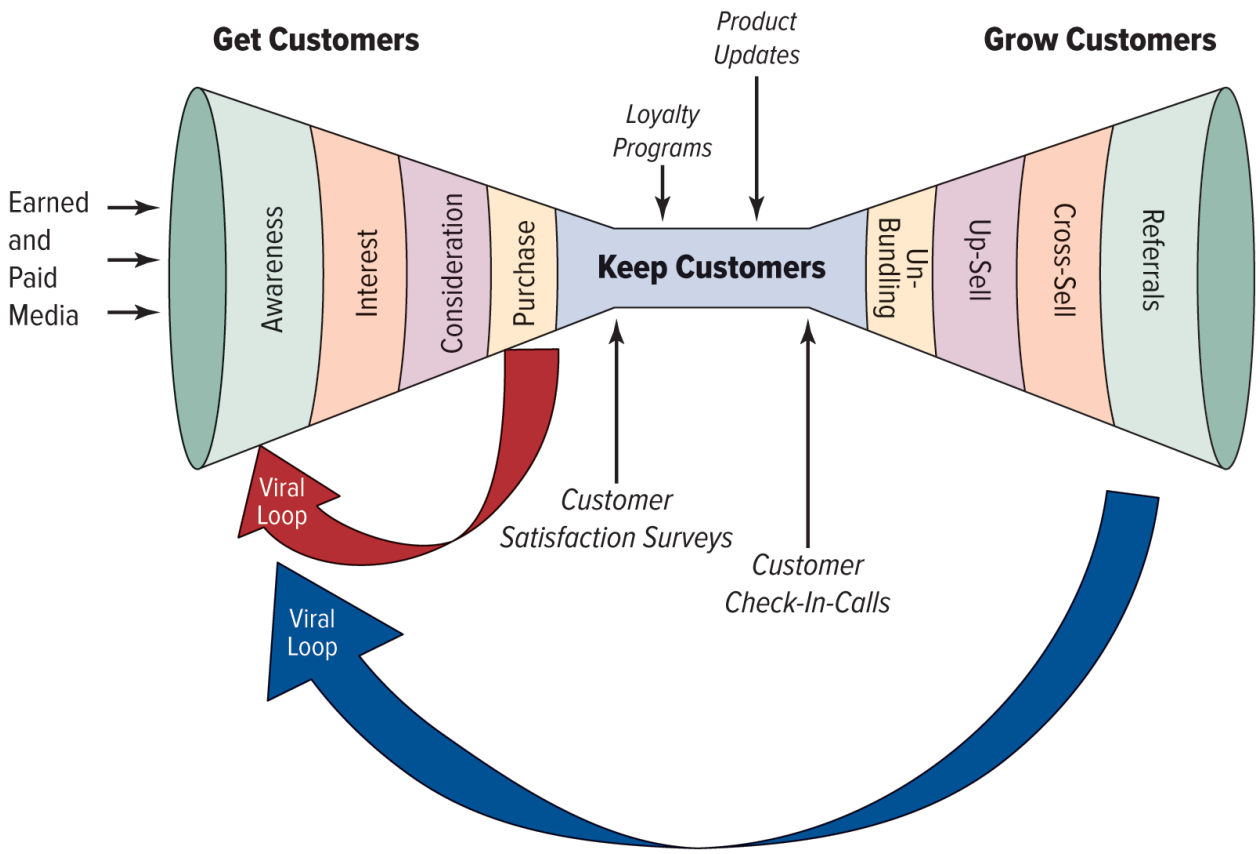
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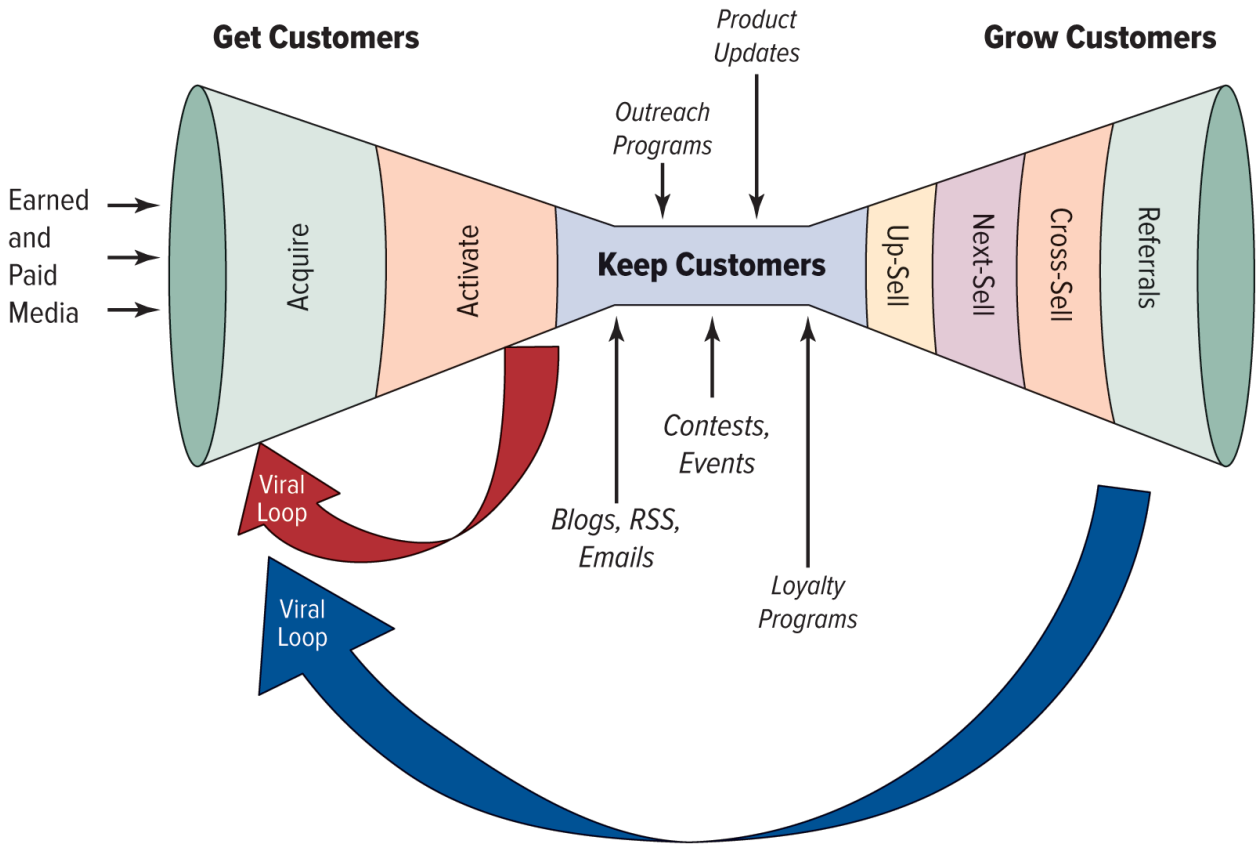
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Contests, Events
Blogs, RSS, Emails
Loyalty Programs
Viral Loop

Promotion Using the PESO Model 10-2 Recognize the PESO model of the promotional media landscape. Page 337 American consumers are bombarded by messages all day. For example, a Yankelovich Advertising Agency study reported the average person was exposed to 5,000 ad messages a day.4 However, many of us screen out most of the commercials we see or hear. Even when an advertisement catches our eye, we are likely to spend only a few seconds at most considering it unless it is of special importance to us. For example, if you are in the new car market, the car advertisements suddenly become more visible to you. But even when you are interested and move down the marketing funnel from having an impression to becoming a sales lead, you may have a poor recall of any ads you've seen. Was it the funny ad or the one with the special effects? Ad recall is a major problem for all advertisers. The bottom line consists of two questions: How can you get the attention of your potential customer? If a potential customer sees or hears your message and walks away with only one thought about your firm, your product, or your service, what do you want that to be? The how has been addressed somewhat by thoroughly investigating your target market and finding out what they like. This will give us a good idea of where they are likely to be exposed to our messages. This will also give us a good idea of how our messages should be designed.5 So if you did a good job on the target market analysis introduced earlier, you should know where they look and what they want. That leaves crafting a message that fits their needs. The PESO Model of the Media Landscape Once upon a time, that is before the Internet, the media landscape was pretty small and manageable. There were four national networks (ABC, CBS, NBC, and PBS), a dozen radio stations, one or two newspapers in your town, fewer than 100 national magazines, of which only about a dozen printed regional editions in which a small business might imagine advertising. In your neighborhood you could pass out flyers or try mailers, use signage, sponsor a team or something at school or church, and of course hope for positive word of mouth. If you were lucky, occasionally a local TV or radio station or newspaper might mention you in an article. Today is very different. For starters, customers are being bombarded by more than 5,000 messages a day, as noted above. There are more than 1,000 U.S. cable channels, hundreds of pay-per-view and streaming services, 7,167 magazines in the United States, 1.6 billion websites of which 200 million are active worldwide, 2.46 billion social media users worldwide (all of whom have pages), 31 million bloggers in the United States, and 1,276 newspapers in the United States (nearly all of which can serve ads to specific localities).6 There is a flood of information and messaging, and for the entrepreneur, the challenge is getting heard by potential customers—in particular, those people who are most likely to want your product or service. One way to make sense of this gigantic media landscape is to use a model that helps you organize media opportunities. One of the best models was developed by Gini Dietrich, head of the Chicago-based marketing firm Arment Dietrich,7 called the PESO model. PESO stands for

the four major types of media: paid, earned, shared, and owned.Figure 10-4 shows the model graphically and labels the four circles and the key overlaps. Like other popular models, PESO has spawned a lot of variations, and the model we use here is a hybrid building on Dietrich's original thinking.8 FIGURE 10.4The PESO Model:A Hybrid Model of How to Think about the Media Landscape Source: Adapted from G. Dietrich, "The Four Different Types of Media," Spin Sucks, June 24, 2013. In using the PESO model, we will start with a simple way to order our approach. Most of Dietrich's clients are pretty well-off financially, so it makes sense that she started her model with paid media. But we will start with a focus on owned media, which includes your websites, newsletters, emails, signage, and the like, because that is where you establish your business's media presence. We'll focus on shared media second, because getting onto social media is free (and free is best when starting out and not having a lot of money) and helps connect you to your initial customers and the friends they share with. Third will be earned media, which is public relations and press relations and garnering what we will call "free ink." This is easier when you have established credibility through your growing base of friends on shared media. Fourth will be paid media, which refers to all the different forms of paid advertising you can buy. We put it last because it works best when you know who your customers are, and where they go on the vast media landscape, so you can target your ad buys as precisely (and cheaply) as possible. As you read about the PESO model you may find that an item, such as contests, might show up in several places. That is OK. The model's purpose is to help you think of the different ways you can promote your business. Items don't need to fit in only one category. What is important is that you think about the kinds of media available to you, what is called the promotional mix of techniques you will use to get customers to notice your business. Page 338 The overlaps of the circles also have a special meaning. The owned–shared overlap is where your social media embassies (your firm's pages on social media platforms) exist and are your gateways to shared content. The shared–earned overlap is where your media partnerships with companies, influencers, and media organizations reside. The earned-paid media overlap is called media integration and is where you develop contests, advertorials, lead generation efforts, and influencer-directed campaigns. The paid–owned media overlap is where incentive media based efforts are the focus, such as sponsorships, affiliate marketing efforts, brand ambassadors, and related types. At the very center of the PESO model is where your brand and your organizational identity goes, and it is where everything starts. Your owned media is based on the brand you are seeking to promote, and that brand is the living manifestation of your firm's identity—it is who you are and what you, your firm, and its products or services are all about. So we will start building out the PESO model with brand, and then talk about owned, shared, earned, and paid media. Your Brand: The Start of It All What is a brand? At first glance a brand may seem like the name a firm puts on itself and its products to differentiate them from

competitors' offerings. But in reality it is more than that. Coca-Cola is one of the best-known and best-thought-of brands in the world, and a former president of the company, Muhtar Kent, is famous for the quote "A brand is a promise. A good brand is a promise kept." One of the most important jobs of the entrepreneur of a start-up is to craft a brand message that reflects what the firm is about. Think about your customer interviews. If your brand were to promise something to help meet the customers' pains and needs, what would that be? A natural response for many entrepreneurs would be something along the lines of "It would be a product (or service) that does. . . ." While it might be the natural first response, from a branding standpoint it is too limiting. Your product or service will probably evolve, so your brand would need to change to reflect this. Page 339 A better approach is to think about what underlies your brand. You have probably had personal experience with Disney movies, shows, games, books, and perhaps even theme parks. So take a second and think about what the Disney brand means to you. Following is how Disney executive Roy Disney (who was Walt Disney's nephew) thought about it: The Walt Disney Company is more than just a business. It is an authentic American icon—which is to say that over the years it has come to stand for something real and meaningful and worthwhile to millions of people of all ages and backgrounds around the world. This is not something you can describe easily on a balance sheet, but it is tangible enough. Indeed, it is the foundation on which everything we have accomplished as a company—both artistically and financially—is based. I believe our mission has always been to be bringers of joy, to be affirmers of the good in each of us, to be—in subtle ways—teachers. To speak, as Walt once put it, "not to children but to the child in each of us." We do this through great storytelling, by giving our guests a few hours in another world where their cares can be momentarily put aside, by creating memories that will remain with them forever. This is the core of what we've come to call "Disney."9 Notice Disney doesn't talk about the films, the books, or the parks. He talks about how the work they do provides benefits to their customers (which are called "guests" in Disney-speak). The characters of the Disney stories will change. New technologies will mean Disney will come to us in different channels and ways, but the brand's message, and promise, remains the same. Skill Module 10.1 explains how to craft a brand promise. SKILL MODULE 10.1 Creating Your Brand Promise10 Establishing a brand can be as simple as being able to say what you are promising to deliver to your customers—the benefits or help that you give us and we should expect from you. This is called your brand promise. This reflects what you, your firm, and your employees will strive to do for the customer. The focus of the promise is keyed to an emotional outcome you want to achieve in customers through your action. Given this, the template for a brand promise is simple. As practitioner Sue Kirchner put it, your brand promise in effect says how "We are the company that does X (achieves the emotional result) for Y (the customer) because we do Z (the action you take).11 It differs from the customer job because the job

looks at what the customer is trying to get done. Similarly, it differs from the value proposition (Chapters 4 and 9) and mantra (Chapter 8), which focus on what pains and gains your product or service solve. And it differs from your competitive advantage (Chapter 7), which is what your firm does better than the competition. Ideally, the value proposition, mantra, and competitive advantage for any of your product or service offerings should be a natural extension of the brand and the brand promise. Small businesses actually have natural advantages in branding. For these businesses, the entrepreneur is close to the customer. A brand can be close to a personal promise, one more likely to be believed, and one that can be acted on or repaired immediately. The basic brand promise is that your product and service will work as indicated. Your gas powers my car. Your cleaning of my house leaves it clean and shiny. But you also have the potential of going beyond this basic promise. How do you go above and beyond? A family-owned chain of country restaurants called Lambert's Cafe started in Sikeston, Missouri, in 1942. While they seem at first glance similar to Cracker Barrel restaurants, Lambert's has a following that is legendary. Motorcycle clubs, busloads of seniors and churchgoers, truckers, tourists, and classic American food fans will travel hundreds of miles out of their way each weekend to grab a meal at Lambert's. Its approach was and remains enormous portions of staples, cooked traditionally, and served with all-you-can-eat pass-around side dishes and hot rolls thrown across the room to you. Its three restaurants themselves are gigantic, but usually have lines out the door. Its founder, Norman Ray Lambert, built the brand with "Our simple but powerful rule: Always give you, our guest, more than you expect to get."12 Page 340 Branding builds from what you can do for the customer (the value proposition), what you can do better than others (your competitive advantage or distinctive competence), and what you personally want your firm to represent. It is something you need to do because if you don't build and promote a brand of your own, you leave open the potential for your competitors to create a brand image of your firm in customers' minds.13 Keep in mind that at a basic level, as the entrepreneur, owner, and founder, to many people you are the brand. What would Dyson vacuum cleaners be without the on-screen presence of inventor James Dyson? If chef Emeril left his restaurant, wouldn't you feel something important was missing? For small businesses, the entrepreneur and the business often start out as one and the same. As the business adds employees, the importance of the owner declines, but realize that the brand you have created will always be dependent on you. When Vince Shlomi, the pitchman for the ShamWow towels, was arrested for a hotel room brawl in Miami, his mugshots made the celebrity TV shows and magazines. Can you imagine how the ShamWow's target market reacted? Remember, for your small business you are part of the brand, even when you have been careful not to put your name on the business. • James Dyson's face, voice, and identity as the founder of Dyson, Inc. are as much a part of his firm's brand as Dyson, Inc.'s innovative products. Bruno Vincent/Getty Images As you

develop your brand and brand identity, you come to know yourself and your business well enough to start the process of building the business out in the media landscape. And as we said earlier, that starts with a focus on your owned media.  Owned Media Once you have come to an idea about what you want your firm's brand to be, you are in the position to start crafting your firm's organizational identity (introduced in Chapter 3) and the many forms of owned media. Organizational identity starts with the names of your business, product, or service, and these days often includes logos, symbols, characters, slogans, hashtags, uniforms, and packaging. Picking names that can work across all these different forms can be more complex than you might think, and we will introduce some of the key issues to think about next. Once you have the names created, they become the basis for creating your business identity.  Picking Names Your brand's name sets the product's personality and helps separate it from competitors.14 For some small firms the brand name and the company name may be the same—especially if you are a service (Speedy Dry Cleaning) or have a limited product line (e.g., Beyond Clothing). There are certain guidelines for coming up with good names, but there are many exceptions. Here are some things to keep in mind: The first thought for many entrepreneurs is to name the firm after themselves. While that is not necessarily a problem, it is also not very clear to potential customers what it is that you do. What is the Smith Company? What products can I find at Brown's Emporium? Consider adding another descriptive word to your name—Smith Machining Company will attract a whole different clientele from Smith Beauty Supply. This typically isn't a problem with a product because we usually add the product category: Smith Dishwashing Detergent. Another issue with using your name concerns how to handle the name if you decide to sell the company. The new buyer of Smith Machining Company will become tired of explaining that there is no longer any Mr. or Ms. Smith with the business. If you decide later to reenter the business (or any business), your name is now on someone else's business; while "Smith" is common enough, customers may wonder why Mr. John Cuttlebrink doesn't work at John Cuttlebrink Machining Company. In addition, should the new owners have a bad reputation, it's your name that will be smeared.  Page 341  Is your name appropriate? If your name is Payne, you might not want to use it for a dental clinic. How many other firms are using the same name (with or without additional descriptors), and will that cause confusion? (City or place names can get overused as well.) Maybe you are the only Srivhantinivasthian in the phone book, but will your customers remember your name or be able to spell or pronounce it? Maybe you should consider a nickname or a first name, or forget vanity for now and go with something else.  Be careful about infringing on trademarks. Even names relatively close can cause you trouble. Dr. Peter wouldn't work for a soft drink, but it could be used for other products.  Something that describes your firm or product and is easy to remember is ideal. While plain-old "Discount Furniture" certainly fills that bill, "Cheap Seats" is a little catchier and more memorable. Be careful, though:

This technique isn't appropriate for every type of business. "Divorce Depot" or "Bankruptcy Barn" probably won't convince potential clients that you're a serious, competent attorney. Creative spellings are eye-catching, but don't go overboard; "Myk's Otto Groj" is certainly different, but Mike's customers won't have an easy time finding him in the phone book or on the Internet when they need their cars repaired. Product brand names, too, are often evocative of the benefits they offer—Vaseline Intensive Care—but they may also be simple names—Dove, Zest, and so on. The same guidelines about being relatively easy to spell (not too creative) and to pronounce apply here as well. Beware of selecting a name that's too narrow to allow your firm to grow. "Just Jams and Jelly" might work right now, but what happens when you expand into candy, juices, pies, and the like? Check that the name can be used as your firm's name on the Internet. If you decide on Rachel's Dog Care Products as your name you will want to be able to buy the domain name www.rachelsdogcareproducts.com or www.rachelsdogcare.com for your website and email address. Of course, many firms use one name for their company and a separate brand name for their products. Procter & Gamble doesn't use its company name on a single item. Kraft uses its name on some products (cheese, for example) and not others (Jell-O). The nice thing about separating your company name from your brand name is that if you have a product that doesn't take off—or fails catastrophically—you can drop that product line with minimal impact to the company image. Dropping New Coke was a bigger problem for Coca-Cola than dropping the Edsel was for Ford Motor Company. The same basic rules apply here as well: Catchy, easy to spell and pronounce, and descriptive are usually the best options.15 The Forms of Owned Media So when you have worked out your organizational identity and brand, with all its meanings and promises, it is time to turn those important ideas into the basic items of your firm's owned media. While some elements are free, others will take some money up front. The following bulleted items list the key elements of creating your corporate identity: Domain name, website, email, and app: Today the selection of a company name that can become your domain name (what is typed after www in a web address) is essential to building your corporate identity. Most website packages will also let you use the domain name for your emails, so Jerome@Telesell.com becomes your email instead of Jerome6073@gmail.com. Using your domain name in your email address makes it look more professional and helps reinforce your company's identity. The details of selling via mail and email is discussed in the Chapter 11 section "Direct Mail and Its Variants." You can check if prospective names are available at at www.whois.net or at most web hosting companies' websites (search for "cheap web hosting" to find one), but if you find that a name you like is available, plan to buy it that day. There are firms paying each day to see what names were looked for, and they buy the names to resell them to you! Search for "cheap domains" to find low-cost domain name vendors. Many web hosting companies will give you the domain name free

with a web hosting package. Unless you're planning to do e-commerce from day one, you can open up a "starter" type website (usually around five pages) for a low fee and upgrade as you get an idea of what your business really needs.16 Page 342 Logo: Armed with your domain name and email you can start making business cards, and then websites and brochures (the print equivalent of your website). If you think a professional-looking logo would help, there are free do-it-yourself sites like www.logomaker.com or www.freelogodesign.org, or you can post for proposed logos on a site like www.upwork.com and offer a price ($25 is typical) for the logo you select. Most marketing and web design firms can help you in this area as well. Phone lines: You need that phone number to include on your business card and website. Think about getting a number that reflects your business—one tile company snagged a phone number it could display as 555-868-TILE (8453). One free service to consider is Google Voice, which will let you program one number to ring in multiple places or across multiple phones—or your PC or tablet. With these basics in place, you can get down to the serious business of advertising your product and service offerings. Business cards and stationery: These should have your firm's name, address, phone, website, and email address at a minimum. If you have the space, adding your slogan, Facebook, Twitter, or other company pages can be good ideas.Your business card may very well be your first advertisement. Use every opportunity to pass it out, not only to potential customers but also to friends and family who may also pass along your card (word-of-mouth advertising). Many places offer bulletin boards where you can post your card. Place several if permitted, in case a potential customer takes one. Your stationery puts your name and message in front of potential clients, existing clients, suppliers, and others. You need stationery and business cards anyway; you might as well make them work for you. Brochures and flyers: These pieces can be produced on your computer and printed with good results on most color desktop printers. Or they can be run off rather inexpensively at many copy centers. Both will give more information about your firm and products than your business card. The brochures and flyers can be as simple as a photocopied takeout menu or as complex as glossy four-color printed mini-catalogs. They can be passed out, posted on bulletin boards, enclosed in other mailings, or mass-mailed by themselves. We go more in-depth on catalogs and related techniques in Chapter 11. Sales packets or marketing kits: These materials provide potential customers an education in your product or service, including stories of customers whose problems were solved, FAQs (frequently asked questions), as well as a page on your products or services, and a page on you and your firm. These sheets can be printed on nice paper and put into a pocket folder with a sticker with your firm's name and address on it. If you're lucky, you may also be able to add customer-generated content to your site (a shared media on your owned site). Online sales support materials: Companies put a variety of materials on their websites to help potential and current customers connect to the products, services, and

people. They include videos (think ads, how-to's speeches done by your experts and leaders, reposts of local TV news stories, etc.), newsletters, blogs, infographics, customer stories, employee stories, case studies, research, white papers, e-books, and pretty much anything people might see about your business or your thinking. Signs: Signs are also a form of advertising. They need to be large enough to be read by passing traffic and should reflect your firm. Homemade signs do not indicate high quality and professionalism. Consider lighting it at night—a must if you do business in evening hours. Changing messages keeps your customers' interest.17 • Entrepreneurs have promoted their businesses for ages. This sign is ageless, although depending on where you are, it might mean you are about to enter a coffee shop or a tea room, but either way it still works today. What kind of eye-catching sign could you create for your business? tonyz20/Shutterstock Packaging: For products, the packaging is the major way you market to purchasers. It is where you tell your brand story, the benefits you provide and the details of your product (e.g., ingredients, dimensions, etc.). Packaging can also include point-of-sale displays, racks, special signage, coupons, and the like. We discuss some examples of this in Chapter 11's coverage of direct sales techniques. Promotional novelties: Novelties range from key chains, pens, and coffee mugs to more expensive embossed briefcases and the like. Something like a pen or small calendar can be produced with your company's name and slogan for pennies in quantity. Fancier items may be given to key customers or potential key customers or as gifts to your employees. T-shirts, golf shirts, or other clothing can be given as gifts or worn by employees and your message goes wherever the clothes are worn. Staples developed a whole marketing plan around the succinct message "Staples: That was easy" and created the Easy Button. This promotional novelty was so successful that it now sells the buttons in its stores.18 Page 343 Social Media Embassies The overlap of owned media and shared media is one of the most important parts of any small business's media strategy; it is where your firm has its own branded page on the different social media sites. There are your "embassies" on social media sites owned by firms like Facebook and Google. This includes the classic social media sites like Facebook, Twitter, LinkedIn, YouTube, Pinterest, Instagram, Vine, Google Currents, Snapchat, Periscope, and SlideShare. It includes business directory sites such as Google, Yahoo!, and yellowpages.com. It also includes user review sites like Yelp, Choice, Trustpilot, and others,19 They also include catalogs, both online and in print, which are discussed in Chapter 11, and the 800-pound gorillas of retail, online sales platforms like Amazon, eBay, Etsy, and others, which combine online catalogs and extensive user ratings, Q&A, and comments rivaling other types of social media platforms. For the sites that are most popular with your customers, you will want to keep an eye on the online feeds. Postings to these sites can give you an early warning of potential problems, and gives you a platform from which to handle the problem. Solving a problem on your social platform will be seen

by other customers and build your credibility and their trust in you. Even when things are going well online, responding positively to customers who post rewards them and increases everyone's engagement with your business. Most of these platforms will send you notifications of new postings to help you stay on top, or you can use a social media management platform like Hootsuite.com, or even pay a customer, friend, or family member to keep an eye on the sites for you and alert you when action is needed. Shared Media Shared media is the ultimate form of free advertising. It happens when people post on their personal social media accounts about your firm or its products or services. Talking to friends, family, or co-workers is what you hope for. If you ask most service providers how they get business, the answer is usually referrals or word of mouth.20 Carter Prescott, head of New York–based Carter Communications, which provides high-level writing and speaking services for Fortune 500 clients, doesn't even have a listed phone number. "I've never needed one," she says. "It's better to have people call you on their own, rather than soliciting calls anyway. You get a better client that way." She gets calls only when a current client gives her number to a potential client. A word-of-mouth-related opportunity is when customers share their stories about your business. This can happen in person or online on social media sites where there is the possibility of buzz or viral marketing. You or one of your customers may post a message, picture, or video on their own account (or your business's Facebook or Twitter account). When a potential customer hears of the business from a trusted friend, a connection is established that cannot be matched by advertising or other marketing methods. If others start sharing, you benefit. If the sharing becomes explosive, with thousands or even millions of people seeing and sharing the material, you've "gone viral." That is the home run of Internet and word-of-mouth marketing. Creating and leveraging hashtags is a popular way to increase the viral impact of your business. Hashtags are words with an added "#" at the front. They can get added to social media posts, and are searchable and countable across different social media platforms. Google "small business hashtags" to see the range possible. Thinking of gyms and personal trainers, these could include terms like #fitnessfriday, #wellnesswednesday, #getfit, #workout, #crossfit, and more that you would include in your social media postings. The goal is to use hashtags that connect with how your customers might think of your business. As you create hashtags of your own, you can register them at twubs.com to show when you started using it. It is possible to trademark a hashtag, but the idea is to make hashtags as available as possible to get the broadest awareness and use. Some say that going viral can only occur naturally. But it may be possible for you to get a small-scale virus going. For example, imagine our day-care center owner posts on her Facebook page a short video titled "How to get your child ready for his or her first day at day care." The customers on the Facebook page like it enough to pass it on to their friends, who pass it on, and suddenly a reporter at the local TV station sees it and asks the owner for an interview. In the interview,

the reporter mentions the video and links to it from the TV station's website. Suddenly the owner is the top day-care expert in Phoenix. Think about that when you see the local news. Page 344 Media Partnerships Just as individuals are better off when they band together, so are businesses. There are all sorts of membership organizations for businesses—chambers of commerce or local business organizations that focus on all firms in a particular geographic area, trade or professional associations (see Skill Module 3.1) who focus on people in particular lines of work (e.g., all auto repair shops, or all physical therapists), organizations that focus on political issues such as international trade, climate change, safety, taxation, or improving transportation systems. Firms may join these efforts, and even display their membership on their websites and in their publications. For the firm, it provides access to a network with shared interests and knowledge, and can be a way to learn about the leading-edge and best practices in their own field. Note some of these memberships cost, but increasingly, memberships (especially for Internet-based organizations) are based more on a freemium model where donations or memberships are optional. But there are a multitude of other ways to partner. Consider the photo below of a street fair. How did it come about? Quite often, it is the store owners on the street who decide to jointly throw and promote the fair as a way to promote their businesses to a bigger audience in a bigger way. For them this form of advertising is called a sponsorship. The more businesses involved, the more sharing of the news, the more customers involved, and the more booths selling products or services, which draw even bigger crowds. • Street Fair in Seattle Most times, these fairs are put together by vendors on the hosting street, as a partnership that leads to more business for everyone. Tom Mareschal/Alamy Stock Photo There are other forms of media partnership. Consider the business that lets you put up a poster for your product or service in its window, or the restaurant that mentions you as a food provider on its menu. Any mention of your firm, your product, or your service by another organization is a type of promotional partnership. These efforts can get much more involved. For example, co-branding occurs where two companies combine their products. Nike's LeBron Soldier sneakers are an example of co-branding between the person and the manufacturer. A variant of this is co-marketing where two companies with similar audiences combine their marketing efforts to improve their impact. A famous example was a 2018 Super Bowl ad for Doritos and Mountain Dew, www.youtube.com/watch?v=rZh_CbcVe7M. A key type of media partnership comes from dealing with influencers. These are people producing content on social media platforms with the idea of getting a circle of readers and subscribers far beyond their personal circle of friends. This can be organized as a blog, a YouTube channel (which may also be called a vlog), or a profile on Instagram, Snapchat, or Facebook. Influencers talk about products and services, and they are generally very open to considering new things. You can find influencers by asking your customers for the people they follow, or you can Google it (using

our day care example, type in “top parent influencers phoenix” and you’ll see things like “The 10 Best Mom Blogs in Phoenix.” Or try Googling “blog directory.” You can also use influencer management platforms such as AspireIQ.com, Buzzsumo.com, or Dealspotr.com.21 Page 345 Influencers get segmented by the size of their networks—macro-influencers have more than 10,000 subscribers, micro-influencers fewer. As you might guess, shout-outs by macro-influencers will cost more, but think about who your target audience is.22 A micro-influencer might be the best fit for your intended audience. And not all influencers need to be paid all the time. If the influencer believes in your product or service, or in you because of your approach or message, the influencer may promote your brand for free, thinking it will benefit his or her subscribers. Internet marketer Kipp Bodnar23 suggests providing blog-ready materials like answers to a blogger’s readers’ likely questions, aggregating and interpreting industry statistics, or making lists or charts the blogger can quickly incorporate in the next posting (e.g., “Top 5 Items for Your Preschooler’s Backpack”). If you can get the bloggers or other influencers to like your product or service, they are more likely to mention it. Sending them your press release (more on that follows) might work if it is relevant, but a sample of your product might be better. Do some research on the sites to decide which to target. You can get some idea about the range of these sort of sites from the Learn More Online box below.24 LEARN MORE ONLINE Below are major influencer sites for a variety of industries: Urban life: http://coolhunting.com Furniture: http://mocoloco.com Tools: http://kk.org/cooltools/ Fashion: www.refinery29.com Luxury items: http://pursuitist.com Electronics: http://gizmodo.com or https://thewirecutter.com Green products: www.treehugger.com The whole idea of connecting businesses to blogs has itself spawned entrepreneurship opportunities. There are sites where entrepreneurs can solicit and pay for blog posts. Examples include Payu2blog.com, Seekvisibility.com, and Blogsvertise.com—which are blog focused but not free for all services. These firms connect entrepreneurs hoping to be featured on blogs with bloggers who don’t mind some extra cash for mentioning their products. These firms state that they ask bloggers for an honest review; the companies don’t specify whether the content needs to be positive. In other words, you can even get paid for complaining about a product or service.25 There are other types of media partnerships that can be important not only for promotion but also because of the things you believe are important. For example, what charities or causes are important to you, your employees, or your customers? You might partner by promoting their events and campaigns. In return, you may be displayed or mentioned as a supporter. Donations are the other paying forward approach, and do not need to be millions of dollars. Small businesses can give their time, their connections, their services, or products. We’ve all seen small businesses performing community service helping clean up a site, or staff a tent at a public event. We’ve seen a firm sponsor employees reading to older adults, or

supporting scout troops or athletic teams or programs. Groceries and restaurants routinely donate food at the end of the day. An in-kind donation of product, service, or cash to a charity event may get your name in the program. Doing good this way may not result in instant publicity, but can be worked into company history or biographical information and is an example of a virtuous cycle.26 Earned Media Earned media occurs when other organizations (like corporations or mass media outlets) talk about you, your firm, or your products or services and you didn't pay them directly for the mentions (those instances are paid media, which is discussed later). Getting other people in the media to talk about you and your business is one of the best ways to get potential customers' attention. Since the days of newspapers, this has been called free ink because getting the local gossip columnist to mention your restaurant got your name in ink but didn't cost you hard dollars (although it might have meant the gossip columnist got a free meal from you). Page 346 In reality, like so much of the media landscape, you can do it yourself, generally for no cost but your time, or you can pay others to assist you or take it over entirely. But today there are more ways than ever to get free ink, and it goes far beyond newspapers. In addition to influencer and partner relations already discussed, there are three types of earned media we will talk about here: media relations, public relations, and investor relations. In Chapter 11 we will cover guerrilla marketing Media Relations The basics of getting free ink dovetail nicely with the ideas behind building press relations. These generally relate to paid media—TV, radio, newspapers, newsletters, and magazines in particular—but your goal is to get free ink from them. Like bloggers, the easier you make it for the press to find and create the story, the more likely they are to use it. For the press, a key issue is how newsworthy your material is. A news story needs to deliver certain essentials that will hold readers' attention and keep your news (and the press outlet's brand) in their thoughts. It should have public recognition, public importance, or public interest. These are detailed in Exhibit 10.1. EXHIBIT 10.1The Three Factors of Newsworthiness Public recognition Issue recognition: Have you solved a problem, maybe even one they didn't know about until now? Trendiness: What's new and great? Famous faces: People you should know about. Proximity: Important things near you. Public importance Power: Changes in current or future leaders. Currency: What's happening now? Public interest Good story: A situation full of drama. Human interest: A character or situation to which we can personally relate. Visuals: Fires, fashion, kids, animals, action—the things that make for good photos and videos. Cultural resonance: A moment likely to be remembered by us all or one that captures a moment of time we'll appreciate. Page 347 Even though something is "new," it might not have enough of the three "essentials" above to grab the attention you had hoped. For example, most hires don't hold importance for the media. Even new products aren't newsworthy unless they are something new and innovative on the market. Since you are a small firm and perhaps local in scope, national media are probably a tougher sale for you

(unless you have invented the next Google, YouTube, or other breakthrough technology). But most communities have local media outlets promoting local businesses. Local television stations like to feature stories as fillers in their newscasts—especially if the story is newsworthy, of human interest, humorous, or generally "feel-good." Look at the example tied to Red Jett Sweets's "Cupcake Wars" participation at www.youtube.com/watch?v=sxD82ooE38U. Note that your professional or trade magazines are always looking for stories from firms in their target industry, and are a good place to get broad exposure, especially if you're selling to businesses. Refer back to Skill Module 3.1 to find those sources. As we did when we profiled your customers, make a list of these media and then determine which ones are most likely to carry the sorts of news you offer. Treat them as if they are your customers. Find out the main contact people, their phone numbers, and do a Google search to see what stories they cover and find out more about them. See if you can identify any preferences they have as to how they like the information delivered (hint: it is usually on their website). Some will prefer that you write the story and let them edit. Others will prefer to send out their own reporters. Many major media outlets have a media kit (also called a press kit) on their website that provides their publication schedule, topics, readership, and ad rates.27 You can see an example at mediakit.inc.com. These days, small and start-up businesses can (and should) make something similar to share with the media to let them know all about your business. We'll call these business profile kits. The typical small business profile kit includes brochures, business cards, product information, and other materials that can provide background material for a reporter. It is usually built around a new press release that you think would be of interest to the media outlet. If done in print or email, it should include a letter of introduction and may include a brief history of the firm (sometimes called the "about us" page), and information about the owner and other key managers. Include other press releases, articles, and newspaper clippings and other materials about the firm. Consider including a "frequently asked questions" page, information about awards, audio and videos of television, or radio interviews. If appropriate, include samples of your products, camera-ready logo art, statistics specific to your industry or target market, photos, and even an order form—it could be your next customer!28 Whenever you run across a new media outlet appropriate to your clientele, send them your business profile kit. The other piece of material you will want to develop is the press release, which is usually the centerpiece of your business profile kit, and the reason it is being sent out when it is to the intended recipients (i.e., you want them to do a newsworthy story about your firm, right about now). The press release is the key method for telling your business story.29 Entrepreneurs can use the AIDA (attention, interest, desire, and action) formula to write press releases well. Attention: Get their attention with a catchy headline. Something clever or a play on words may do the trick. It needs to be short—no longer than 10 words and preferably less.

Sometimes a subtitle may be used, especially if the attention-getting title may not give enough information. For example, “Udderly Delicious: Dairy Marketing in Venezuela”30 is the example of a clever title—a pun—and a subtitle to explain what the article is really about. Try to strike an emotional chord with your readers. Empathize or address a problem they have and you may draw their attention further.31 Interest: While the title should start to pique their interest, the opening paragraph should really capture them. This first paragraph should include the who, what, when, where, why, and how of the story. If you are really good, you can get all that in the opening sentence. The idea is to “hook” them and get them to read further. Desire: Now provide the meat of the press release—details that tell us more about the opening information and increase our interest. Depending on what your press release is about, this could include features of your new products, or some biographical information on the new person you hired. Start with the most important information in the story because editors frequently delete ending materials to fit space. Quotes from key people from outside the company can imply third-party endorsements. Action: At the end you put contact information. Where can they find out more about your wonderful new product, your exciting new vice president, or this fantastic company that just won an award? The goal is to get them to be potential clients; kind of hard if they don’t know where to find you! These days there are online templates to help you write your press release like toolkit.prnewswire.com/pressreleasewizard. Once you have developed your press release, there are a variety of websites that can assist you in sending or emailing your press release to the appropriate media. These include: Your local TV and radio stations, newspapers (including neighborhood and business or specialty newspapers if they’re relevant to what you’re offering). Page 348 In terms of regional and national notice you can try: Press release sites: Google “press release sites” and look for free and paid services. Newspapers: ABYZ News Links (www.abyznewslinks.com) contains links to more than 17,200 newspapers and other news sources from around the world. Blogs: Blogarama.com has hundreds of thousands of blogs categorized, and you can Google “blog directory” to find others.32 To see one approach to getting out press releases to bloggers, look at Justin Wilcox’s own blog post on Customerdevlabs.com.33 There are other forms for sharing your story and ideas with the public and professional media. These include providing interviews or brief podcasts in areas where you would be expected to be expert, or offering a tour of your facility or some place newsworthy (e.g., you have a cleaning service and you offer to let a TV camera crew join you to see the first assessment of flood damage of a home). The goal is to get the attention of the press, and the more innovative you can be, the better your chances. Novelty sells! Public Relations Public relations includes publicity and other forms of communication so that the public and important stakeholders gets a favorable opinion about your firm. This list includes government, education systems, special-interest groups, neighbors to the firm, competition, other business in general, employees and

potential employees, investors, and, of course, potential clients. That's a lot of places to build a favorable view. It isn't an easy or straightforward process. Many people regard public relations stories skeptically: "Of course they will tell us only the good things and not the bad." Some feel that these stories are a thinly veiled advertisement. Also, these are very difficult to control. A firm may spend many hours and resources developing and submitting press releases or other publicity and the news media may never use them. Or, often worse yet, the news media will edit the press release to the point that the original intent is totally distorted. Public relations are those things you do to help create a favorable opinion of your firm in the mind of people in general. For most businesses, the more people who know about your business the better, but this works only if people have a positive opinion about your firm. Often it is easy to do things that help get you a favorable opinion from others. Activities you undertake that show your willingness to help others, through pitching in or sharing time or expertise, can do a lot to build favorable public opinion. For example, we talked about donations and community service above. Similarly, sponsorships can be a good way to get the word out about your firm. Your budget will not cover renaming a local major league baseball stadium, but it might put your name on the back of a T-ball team's uniforms in a neighborhood where your target market lives and plays. This spreads goodwill among the local community and might even be picked up in the press. If a community group has a program that would attract your target market, approach the group about sponsorship. Unexpected money is often the most persuasive to sponsored organizations.
• This basketball tournament will raise money for and awareness of the needs of amputees, and was put on by an entrepreneur whose friend is an amputee. What other ways can small businesses generate positive publicity? Realistic Reflections Page 349 There is another approach for building positive public awareness of your business—creating a publicity event. This works best if it is tied into what you sell. Additionally, it is likely to get more press if the idea is not seen as self-promotion. For example, Immaculate Baking Company baked the world's largest cookie—100 feet in diameter and 40,000 pounds. This put it in the Guinness Book of World Records but also generated publicity. What made it even better was that Immaculate Baking tied this into a fundraiser for the construction of a local folk art museum. Sales went from about $500,000 to over $7 million and the museum gained $20,000 in donations.34 Even simple approaches can pay handsome dividends. Hold an open house or a tour. Have a booth at a local street fair. Celebrate Grover Cleveland's birthday with special activities throughout the day. You can even hold seminars or programs on issues of immediate interest when your firm has topical expertise, or you can give your site to the media as a place to film outside the studio, but if you do, make sure your signs are visible. These approaches are not the only ones possible. Others can be found in the following The Thoughtful Entrepreneur. THE THOUGHTFUL ENTREPRENEUR Tips for Generating Publicity35 OK, you are convinced that publicity is great for your firm;

what can you do that's newsworthy and likely to be picked up by the news media? The following are based on suggestions by Margie Fisher, the president of Zable Fisher Public Relations: Create a holiday: Why shouldn't February be National Roofing Month—even if it's only on your signs, banners, and advertising? Write a book: So what if it is self-published and you give it away rather than sell it? It still establishes you as an expert. Apply for business awards and send out press releases when you win. Get on a reality show or game show: Even a three-sentence introduction can mention that you are the owner of XZY Plumbing in Sarasota, Florida. Put on an educational workshop: Ginger's Quilt Shop of Upland, California, offers all sorts of free or reduced price classes in quilting or related activities and if you happen to want to buy your supplies at her shop, that's fine. Produce a printed or electronic newsletter: Realtors are great at sending out newsletters all about buying, maintaining, and selling houses and just mentioning that if your plans include buying or selling, to let them know. Create a contest with a twist: A camera shop could run a contest for the worst picture ever taken. A veterinarian could offer a free checkup for the homeliest pet. Do pro bono work: Clients who get your service for free also practice word-of-mouth advertising. Investor Relations Investor relations apply the above ideas to a group crucial to your business' survival—your investors. Even if you don't have actual equity investors, you are certain to have a group of stakeholders in your business. These include investors, advisers, mentors, companies with whom you have important relationships (your largest customer, a key supplier, etc.). Your goal with these stakeholders is to convey the good news about your business, show how you appreciate and use their support, and if there are things you want them to know or be aware of, let them know before the general public finds out. Page 350 Most often investor relations in small businesses tends to build from personal contacts, supplemented by emails, often with supporting documents. The goal is to keep investors and other stakeholders up-to-speed on your business, its successes and challenges. For investors, you have a fiduciary responsibility to inform them, because they own a part of your business. For nonequity stakeholders, if you are concerned something is happening or is about to happen that will complicate your relationship with them, it is better to alert them about the pending challenge and explain how you plan to handle it. When possible, you try and do this before it becomes a crisis, but if it does become a crisis, recall the six steps for handling them introduced in Chapter 3. It helps to communicate on a standard schedule. Two, 3, or 4 times a year is typical, while some firms may connect monthly. If something comes up, don't wait for the regular posting, get the word out. In terms of impact, a face-to-face meeting is best, followed by a phone call, or an email. Tweets and text messages probably will not give you the space to get your point across. In your regular communications,36 you want to share the firm's wins. You want to remind them of your firm's purpose and passions. Talk about the value you provide over and above financial returns. Invite them to reach out to you with any

questions or thoughts. And always ask if there is something you can do for them.  Media Integration This category comes from the overlap of earned media and paid media, and represents efforts you pay for to help generate earned media attention. One example you have no doubt seen are contests or sweepstakes sponsored by companies. Today using social media, it is easier than ever to set up a contest on Facebook, Instagram, or Snapchat (or use contest platforms like Sideqik, Wyng, or Woobox to automate this process across platforms), get the word out to your own network, encourage respondents to share your contest link with their friends, and alert relevant influencers about the contest in hopes they mention it. For these efforts, your goal should be getting new prospects or customers and growing your engagement with your existing customers.  Prizes need to be credible—think of a free cupcake from Red Jett Sweets in Chapter 8. Think about what you want beyond an email address; consider asking for submissions like fan photos, fun photos, testimonials, new taglines, or other materials to use in your own social media and advertising.37 To give you an idea of how this works, Todd Giannattasio described in Entrepreneur magazine a contest he ran for a client who had a candy shop and was giving away candy as prizes. The campaign resulted in 623 signups, but 1,851 friends of these people also participated. A campaign costing $101.08 for paid promotion on social media generated 2,474 signups or 4 cents a sign-up.38  Contests are a specific form of the key media integration technique of lead generation which involves paying for mailing lists of potential customers, or selecting target markets or buying subscriber lists on social media sites to whom advertisements will be shown. These techniques can be free (think of gathering addresses or business cards at an event) or paid, as in the case of custom mailing lists (search for “mailing list suppliers” or “mailing list brokers” to find these).39 The other media integration technique is placing advertorials, editorial-like articles paid for by your business, making a case for something important to your firm and hopefully a subset of your current or future customers.40  Paid Media Because of the Internet, today’s entrepreneurs have never had so many ways to promote their businesses. Traditional media like advertisements in magazines and on billboards can now appear all over web pages. Commercials on TV can also appear on the web on YouTube, Facebook, and more. Door hangers with your coupon can be supplemented with local campaigns on Groupon, Facebook, or Google My Business to focus on particular cities or even neighborhoods. There are more places to put the name of your firm or product than ever before—from every square inch of a NASCAR racer’s uniform, to the poles of turnstiles at the amusement park, to pop-ups inside your YouTube video. Table 10.1 gives you an overview of the many forms of paid media available to you.  TABLE 10.1 Traditional and Online Promotional TechniquesTable Summary: Table divided into three columns summarizes list of advertising methods. Column 1 notes ways of advertising. Columns 2 to 3 are marked as: traditional media and online equivalent. Promotional Video (Good for Building Awareness) Traditional

Media Online Equivalent Commercials 1-, 5-, 10-, 15-, 30-, 60-second spots Online/social media video On-screen logo overlays Overlayed on-screen ads Overlay ads in videos, hotlinked logos in videos and photos Dedicated programming Infomercials Online infomercials (same placements as commercials), podcasts, e-books, white papers Product placements In movies, on TV, cable, streaming services, and pay- per-view In online games, videos Audio Radio Commercials, infomercials Audio commercials, infomercials, podcasts Print (Best for Complex Information) Forms with company identity Stationery, business cards, business forms Company website, Facebook page, LinkedIn page, Twitter page, custom URLs for these, custom emails with firm's name Ads 1/8- to full-page ads Online ads Paid specially placed ads Newspaper or magazine ads placed by section and day/edition, code for ad responses, phonebook ads Online ads placed by search results or matched to content (e.g., Google AdWords, Facebook ads), track click-through rates, cookies, or code for ad responses, targeted email, opt-in options on websites Search results Phonebooks Websites appearing as a result of a search (called "organic" results if they come up on their own, "paid" or "sponsored" if you pay for first-screen placement) Included ads Blown-in/copackaged ads Pop-up ads Classified ads Classified ads Craigslist (and competitors') ads, newspapers' online ads Customer newsletters Mailed newsletters Emailed/online newsletters, RSS feeds, blogs, Facebook postings, Twitter tweets Sponsorships Sponsorship in ads and commercials Sponsorship on websites, emails, videos, links, online games Sales promotions Coupons (in newspaper, Valpak, etc.), customer sales mailings, contests, sweepstakes, etc. Online coupons (Retailmenot, Coupons.com, or Groupon), emailed sale announcements, online contests and sweepstakes Locational Promotion Basic location design Store, storefront Website, store pages on Google, Yelp, Bing, Yellowpages.com, Facebook, etc. In-store promotions Sales displays, in-store coupons, in-store scannable QR codes Pop-up displays and coupons, store-specific mobile apps with coupons and sale info OOH (out-of-home) ad placements Shelter ads, wall posters, transit placements, digital place ads, billboards Search engine results placements and portal ads Network Advertising Referral promotions Coupons for friends, shopping together specials Invite/refer a friend, share links, Facebook "Likes," Twitter hashtags, social bookmarking (e.g., Digg, Reddit) Mass exposure Billboards Banner ads on major websites and search engine results Reciprocal advertising Reciprocal ads Reciprocal links Page 352  As you can imagine, given the enormous number of ways to advertise it is impossible to give you detailed information on the ins and outs of each type of advertising technique. In fact there are semester-long courses in advertising in most business programs, with whole textbooks going through the many forms. You can get a lot of information online from reputable sources such as www.entrepreneur.com, www.inc.com, www.mashable.com, and https://ducttapemarketing.com/blog/. What we can do here and in our more detailed discussion of advertising in Chapter 11 is help get you

started in advertising your business. So we will talk about the first steps you take—those you need to pay for and those you can do for free. From your prior workups of customer interviews, customer profile, value proposition, target market, and market segmentation, you should have a clear idea of your intended audience. You should have some idea of where they get their information—from TV, radio, newspapers, magazines, direct advertising like mail, or the Internet—and how much they use and trust each of these vehicles. From this, you can begin to think about how to structure your mix as soon as you add one more item—price! Advertising costs are usually based on cost per thousand (CPM—the M is the Latin mille or thousand). Figure 10.5 shows you CPMs for a number of different forms of paid advertising. What the chart doesn't show, but you need to keep in mind, is that one ad impression is unlikely to do the job. Marketers talk about needing 15 to 20 impressions for people in the general audience to notice and remember who you are. This is why you will notice that commercials are repeated so often on TV and radio. The companies are trying to get enough impressions to you so that you recall their product. FIGURE 10.5Cost per 1,000 Impressions for a Variety of Paid Media Used in Promotional Campaigns Source: "PJ Solomon US Major Media CPM Comparison," The Media Monthly, March 2019, p. 124, www.pjsolomon.com/wp-content/uploads/2019/03/March-2019-PJ-SOLOMON-Media-Monthly.pdf. Taking a look at the graphic and knowing the underlying need for ad repetitions, you can quickly see that major advertising campaigns using traditional media are problematic for small businesses—they are just too costly for most start-ups. How can you build an advertising campaign on a limited budget? Page 353 For companies whose products have a regional, national, or global audience, there is no real competition to the Internet, with the possible exception of a Yellow Pages listing. You need to consider putting your company on the major web services your customers are likely to use: search engines like Google, Bing, and Yahoo!, and social media sites like Facebook, LinkedIn, Twitter, Pinterest, Instagram, and Snapchat. Some will let you put up a business page for free; some will charge. All will charge you for ads, but it could be worth it, depending on how you approach it. Your ad could be seen by millions around the world every hour, or by a few hundred people in your town searching for your keyword. Even without paid ads, your business website on say, Facebook, could help you. If a customer of yours "Likes" your Facebook page, all of his or her Facebook connections will see that, which can explosively add to your growth. Typically your pages on these social networking websites always link back to your main website, so that customers can easily use all your web resources and grow their connection to your business. But because those paid Internet ads depend on how often they get shown, you will want to limit who sees the ad to people in particular localities, or people who have searched for a term linked to your product, or people online on certain days or times of day. You will be able to check how many people react to the ad by their click-through rate, the frequency with which they click

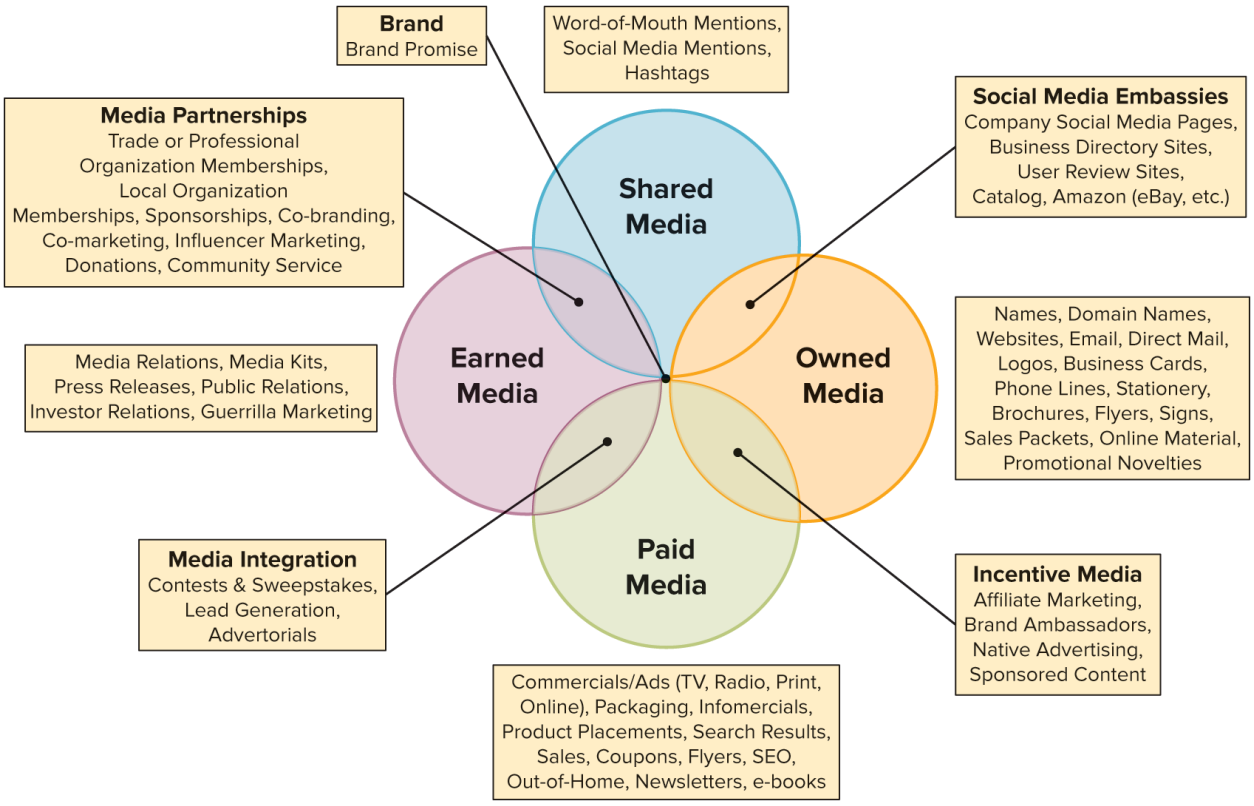
your ad for more information or to buy the product. You can also test multiple forms of the ad in a day (called A/B testing), and adjust the ad as you learn what works best with your target audience. The key to this is using the existing business services on the major websites, like Google Analytics, which is shown in Skill Module 10.2. SKILL MODULE 10.2 Getting Started with Google Analytics The real value of Internet advertising is that you can see how it works, so you can tell what attracts customers and what they do on your site. Google (support.google.com/analytics) and Facebook (www.facebook.com/business) have developed extensive websites full of articles and videos to help you develop, deploy, and understand how your marketing efforts work on their platforms. Instagram, Pinterest, and Twitter also offer services, but generally it works best to learn the basics on Google or Facebook and then use the more bare-bones approaches of the other sites.41 A great site with guides for Google, Facebook, and Instagram is https://adespresso.com/guides/. For Google, there are two related sites you'll want to work with: Google Analytics and Google AdWords (ads.google.com). You will need to register for both, but registration is free. Start with Analytics, which tells you who has visited your website. It will know because your first step is to paste code from Analytics on every page of your site you want to track. Step two is to set goals for your online campaign (e.g., get people to view at least two pages on your site, sell to 1 visitor out of 100, etc.). The measurements for these goals are often called key performance indicators (KPIs). Step three is to add in Google AdWords. AdWords lets you analyze keywords (including those used by your competitors) and purchase ads on Google, which can be based on very specific keywords, demographics (age, gender, location, etc.), and interest profiles such as gamers or parents. Competing sites offer similar capabilities. Note that you can use the AdWords app to research keywords to help optimize your own site's search engine position without having to buy AdWords. There are also independent sources like keywordtool.io or www.wordstream.com/keywords. The fourth step is to return to Google Analytics to track and analyze your results. Analytics will show your organic traffic, the people who came to your site without you paying for the link that brought them there, as well as traffic brought in from your paid-for sources. It will show actions in the site and the demographics of the people who showed up. You can learn more about this (and even get online training leading to certification) at support.google.com/analytics. To learn more about online marketing in general, you can download the e-book eMarketing: The Essential Guide to Marketing in a Digital World for free at https://open.umn.edu/opentextbooks/textbooks/emarketing-the-essential-guide-to-marketing-in-a-digital-world, or try some of these how-to sites recommended by entrepreneur and social media expert Ron Roy of Winesthatrock.com: SocialBakers.com: Lots of social media insight, marketing tips, and case studies. SocialMediaExaminer.com: One of the best "how-to" social media websites. KissMetrics.com: Tracking tools if you want to take your social reach to the next level. Page 354 Services like Google AdWords

and Facebook for Business let you focus your paid ads in a relatively small geographic area. Recall we explored how to do this using Facebook Audience Insights in Skill Module 9.5. Services like Valpak and competing local coupon-mailing or door-hanging services offer a similar service using traditional print media. For our day-care center, we could use Google AdWords for people searching for “day care” or “child care” in the local area and supplement that with mailed coupons in areas of town we know have families with children. We could then supplement these with the free techniques discussed next. We also could check locally for neighborhood newspapers where we might place ads, as well as church and school newsletters, which tend to be very low cost. But as great as web-based advertising is, it is worthwhile only if your intended target audience is on the Internet on sites where you can advertise to them. The story of AO Rafting in the following Small Business Insight shows a powerful way to leverage the web. For our day-care center in Phoenix, we could limit online ads to people in Phoenix who search for terms such as “day care.” SMALL BUSINESS INSIGHT Whitewater Marketing42 Digital Vision/Getty Images A business website doesn’t win awards because it has cool features and bells and whistles that are part of many websites. It has to work for both the customers and the company. Rated as one of the top sites according to Inc. magazine, that’s what really distinguishes the website of AO Rafting (www.aorafting.com). Established by a schoolteacher over 50 years ago, the company All-Outdoors Whitewater Rafting, or AO Rafting, is a multigenerational family business. It’s a regional company in a seasonal business, with about $2 million in annual revenues and fewer than 20 permanent employees year-round. However, during its eight-month annual season, AO Rafting employs more than 100 people including some 75 part-time guides. Based in Walnut Creek and Lotus, California, right by the mother lode that drew the forty-niners out west for the Gold Rush, this business seems isolated, deep in canyon country. Yet, it has built a web presence that puts to shame a lot of other small businesses that may be more tech-savvy and have greater resources. Prospective customers can tour the Klamath and Tuolumne Rivers through the site’s virtual tours. They can also plan trips right on the site, check the availability of tours, make reservations, access real-time information on water conditions, refer the company to friends, and find discounts on trips. The site has virtually replaced almost all the traditional marketing and promotion that All-Outdoors Whitewater Rafting used to do. Page 355 When you think about spending money to buy advertising space, especially when we are talking about traditional media like TV, radio, and print, it can make a lot of sense to also allocate some money to have advertising professionals prepare your ads. There are small advertising and marketing agencies virtually everywhere (and if you are comfortable working with an online ad agency, they literally could be virtually everywhere). Most good ones will show you a portfolio of their work, and hopefully you can check them out with their other clients. Most will also give you a cost estimate to help you determine quickly if

you can afford them.  This can also apply to your Internet ads, especially if you are planning to develop videos or want interactive websites with state-of-the art graphics, or if having a stylish site is central to the image you want your firm to project. Otherwise, many people using the Internet seem to prefer the less professional ads that give you the sense of a personal connection to the entrepreneur at some other computer on the World Wide Web. On the other hand, you may want to hire some professional help in order to make your website appear high up on search results, through the techniques of search engine optimization (SEO). Identifying the best keywords and description tags to your web pages can be extremely useful, especially if you are new to the intricacies of the World Wide Web. But a key decision is who and how often your Internet pages will get checked and refreshed. While these sites are free and interactive, giving you a way to exchange ideas and opinions with one another, if you are going to be serious about using these free networks, you need to be consistent about living up to your social obligations. Checking Facebook, LinkedIn, or Twitter every morning and afternoon is necessary, and you need to not only check what is happening, but to keep the site's content fresh with new postings at least a couple of times a week. A dormant Facebook or Twitter account actually hurts your business reputation because it seems like you don't care.  Incentive Media This, the last of the nine elements of the PESO model, focuses on the overlap between paid media and owned media. Incentive media most often represent partnerships where you are paying for connections useful to your business. The best known and perhaps the biggest of all forms is called affiliate marketing. You have probably read about a cool product or service online, and clicked on the hotlink to learn more about it, or even buy it. That link took you to a special version of the product/service page to make your purchase. The place you saw the original mention of the item was on the affiliate's site. The page where you bought the item is on the retailer's site, and the retailer pays a flat fee or a percentage of the sale price to the affiliate for every sale that comes through that particular hotlink.  You can create an affiliate program and detail it on a page on your website. To get an idea what to offer as payment for a sale based on an affiliate link, consider looking at the affiliate pay rates of major companies like Amazon or Walmart. Rates often vary based on the type of product or service (e.g., 1 percent for video games versus 10 percent for contact lenses). You can also decide if you pay only for sales, or for lesser categories like new additions to your email list. Affiliates usually add a cookie to people who click the link, to identify their site as the source for your customer, and you can set how long the cookie remains active. As you probably gather, there can be a lot of complexity. There are sites you can access to learn about creating your own affiliate marketing program, or as is the case so often on the Internet, someone offers a service to do this for you. You can find these in the Learn More Online box below. Many of them offer for-fee affiliate marketing managment services. LEARN MORE ONLINE Learn more about the topics above at these sites:  AM Navigator:

www.amnavigator.com/ Affiliate Programs: www.affiliateprograms.com/ How Stuff Works: https://money.howstuffworks.com/affiliate-program.htm Page 356 You can also become an affiliate of companies offering products or services you think your customers or viewers might find interesting. Googling "best affiliate marketing programs" will point you to lists of potential partners. Related to affiliates are brand ambassadors. These are people who represent your brand, company, product, or service to the public. The goal is for the ambassador to display, use, or talk positively about your offerings to build a positive public awareness of them. Ambassadors can be paid or volunteer, but either way, you provide them with your products or services so they can display and talk about them in person and online. You may know someone who is well known in your market, and you can ask him or her to become your ambassador. For example, basketball star Jayson Tatum came from St. Louis, and grew up loving Imo's thin-crust pizza. He mentioned it during the NBA draft and generated a mini-blizzard of notoriety for the chain. Imo's then asked Tatum to be its brand ambassador and spokesperson.43 But there are also local talent agencies that can connect you to local celebrities who might be looking for promotional gigs, and of course there are always online services. We talked about some of these (like Buzzsumo.com) above as a means to recruit influencers, and a brand ambassador or spokesperson is a different, usually more long-term, form of contracting with an influencer. In addition to those platforms, there are dedicated brand ambassador platforms like www.getambassador.com, www.crewfire.com (check out the guides under their "Resources" tab) and brandchamp.io. The other forms of incentive media typically focus on printed content. Did you ever notice items on social media feeds or web pages that say "Sponsored" or "Recommended For You" or "From Our Advertisers"? These are all ways to insert ads into pages that aren't intended to be primarily commercial. They are called native advertising, and are one of the frontiers in online ads. The goal in native ads is for the ad to blend into the regular content of the page. FTC rules, though, require some indication that it is an ad—for example, the "Recommended for You" tag you see. Online ad platforms discussed above can set you up with native postings.44 A variation of this is called sponsored content. Typically, sponsored content refers to articles, videos, blogs, or downloadable materials that promote your brand, business, product, or service. The sponsored content is clearly associated with your business, and will carry your firm's name on it, but it will be linked to spots on the pages of other people and companies. Like native advertising, you may see "Brought to you by" or "Presented by" as a way to identify sponsored content (versus content created by the owner of the site). There you have it! Nine basic ways to think about promoting your business. The challenge is always to find the method that connects you to the largest number of customers who will buy from you, and do so at the lowest cost. The goal is simple. The options available to you to achieve it are many. But note that there is a lot you can learn for free online to either do it yourself, or split

the work with platforms or professionals (or a mix of both). Developing Your Promotion Strategy One lesson you've probably pulled from this section is that there is a lot you can do to promote your business. So much so that having a plan is crucial. We talked in Chapter 9 about the marketing plan that is part of your business plan, but backing up that one-page of overall strategy should be a detailed listing of the goals, types of activities, and anticipated outcomes of your marketing efforts. These are the major components of your media content strategy plan. In addition to the goals, activities, and outcomes, other information you would want to include are what kinds of promotional efforts you will do, the schedule for doing them, the publishing procedures you will use, your budget and costs (including which marketing efforts will be free and which will be paid for), and how you will measure if your goals are being met (through KPIs and reviews of your process as well as the trends and analytics you track). Once again, it is worth noting that there are so many ways to promote your business that it can be hard to decide where to start. For most start-ups, it makes the most sense to focus on brand and owned media, which are necessary to get your business started and established. Initially branch out into shared media through your social media embassies because it is cheap and involves keeping you close to your customers, which is essential to learning your business and market. Keep your eyes open to opportunities for partnerships and earned media, especially the free, low-cost ones or do-it-yourself sort, to get a broader exposure. Look for people you know who might become partners, affiliates, or influencers on your behalf. And as you get experience with these you will be better able to make informed choices about the types and amounts of media integrations, paid media, and incentive media you want to use to boost what you are already achieving. Page 357 Having a great product or service does not do you or your business any good if potential customers do not know about it. Getting the word out about your business and its offerings is the purpose of promotion in small business. The avenues for getting the word out are fairly well known—current or potential customers, the press, and these days the Internet—but because everyone knows those avenues, crafting and distributing a message that people will notice and respond to amid all the ads they face is an ever-increasing challenge. This chapter focuses on preparing you with the basic skills of press and public relations, as well as advice on what makes promotion efforts pay off. Armed with these ideas, you can make your business stand out and be noticed. The other key role of this chapter is to discuss the specifics of selling—how to get started and how to close sales. In the end, sales are everything because everything in business depends on sales. If you can master promotion and selling, your business will have gone much of the way toward eventual success.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Word-of-Mouth Mentions, Social Media Mentions, Hashtags
Social Media Embassies
Company Social Media Pages, Business Directory Sites, User Review Sites, Catalog, Amazon (eBay, etc.)
Media Partnerships
Trade or Professional Organization Memberships, Local Organization Memberships, Sponsorships, Co-branding, Co-marketing, Influencer Marketing, Donations, Community Service
Shared Media
Earned Media
Owned Media
Paid Media
Media Relations, Media Kits, Press Releases, Public Relations, Investor Relations, Guerrilla Marketing
Names, Domain Names, Websites, Email, Direct Mail, Logos, Business Cards, Phone Lines, Stationery, Brochures, Flyers, Signs, Sales Packets, Online Material, Promotional Novelties
Media Integration
Contests & Sweepstakes, Lead Generation, Advertorials
Incentive Media
Affiliate Marketing, Brand Ambassadors, Native Advertising, Sponsored Content
Commercials/Ads (TV, Radio, Print, Online), Packaging, Infomercials, Product Placements, Search Results, Sales, Coupons, Flyers, SEO, Out-of-Home, Newsletters, e-books

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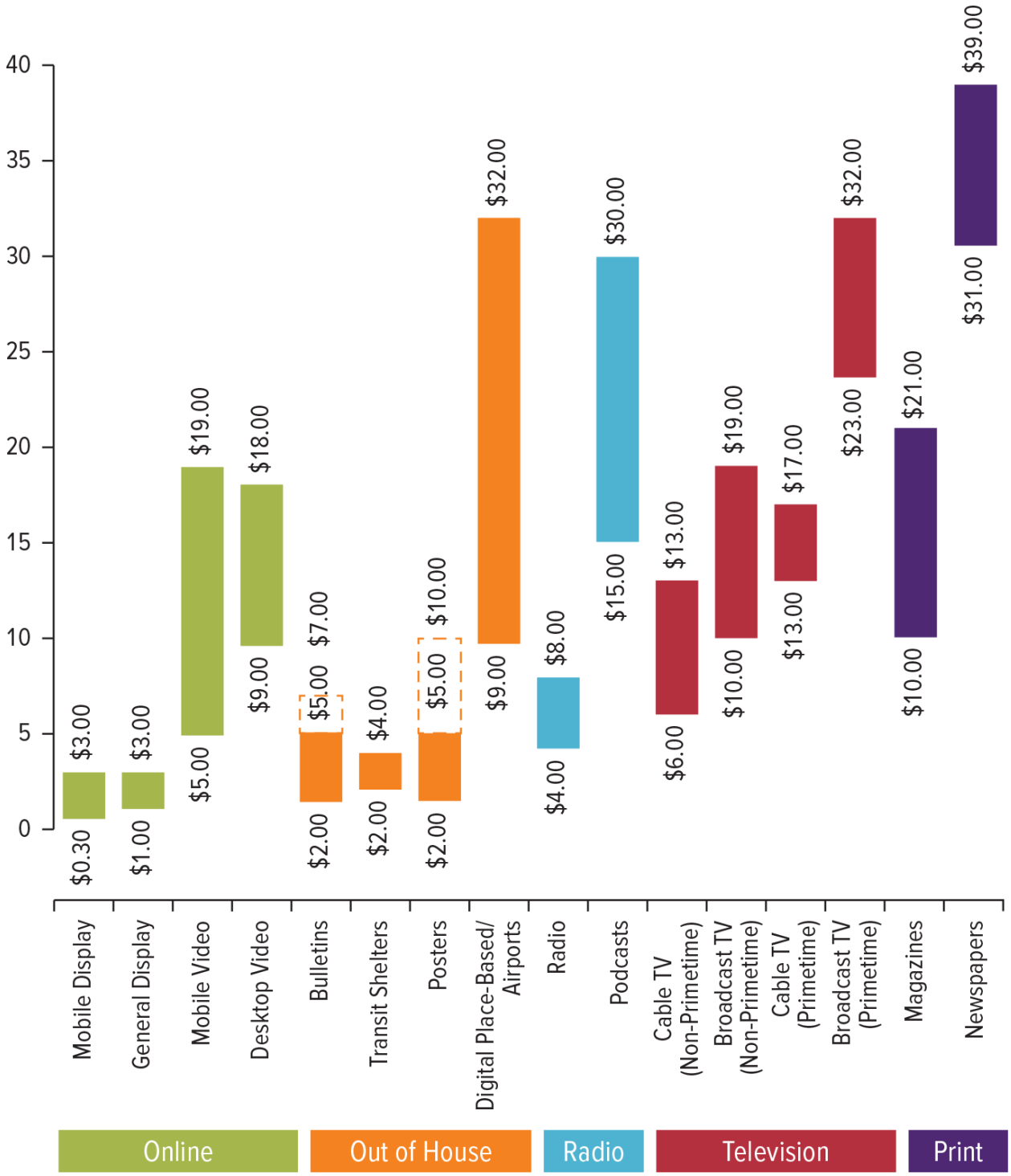



The Process of Personal Selling45 10-3 Apply the key skills involved in personal selling, especially closing the sale. One of the most important jobs an entrepreneur can do is being a good salesperson for his or her product or service. Who knows more about your firm than you do? Who believes in it so much to put all the time and effort into getting it launched? Personal selling has the advantage that you can be flexible in your presentation.

If the current customer is a technophobe, emphasize ease of use. If he loves technology, let him know that he'll be on the cutting edge. Personal selling allows you to find out the buyers' main concerns and address them; in advertising you can only guess. Personal selling allows you to find out from clients what future features they may want to see. While selling may be thought of as an art, there is a general formula for generating interest in your product or service: • Entrepreneurs are, in a sense, always selling their company, product, or service. Being skilled in personal selling is important for many reasons. What elements of the process of personal selling are you confident in? Are there elements you think you need to practice? Hero Images/Getty Images Prospect and evaluate: A good salesperson will collect background information and prepare to present. This could start months ahead of a sales call by making sure that you are thoroughly informed about your product and what it can or cannot do. Of course, the entrepreneur knows all that but may need to study up on some of the technical terms used in the field. In hiring a new salesperson, this step may be lengthier. In addition, putting together a list of potential clients (called "prospecting") takes place. Here is another case when thoroughly knowing your target market is key and critical. In some firms, this may be as simple as who walks in the door. How do you find these prospects? Here's where using a referral form can be a good idea. Ask all satisfied customers of the names of people they know who may potentially need or want your product. Customers may prospect themselves by asking for more information after finding your website or responding to a direct mail advertisement. You may buy mailing lists of prospective clients as well. (See Chapter 11 for more information about direct mail and mailing lists.) Page 358 Prepare: Preparation means finding out what you can about the clients before approaching them. In business-to-business selling, you may be able to check out their website and find out more about what sorts of products the potential clients make. This will help you decide how you may want to pitch your product. What seems to be critical to them? Is it state-of-the-art technology or quality or cost? Prequalifying means cleaning up your list to remove potential clients that are unable or unlikely to buy your product. The reasons for excluding will vary from firm to firm but might include financial status, having just purchased a competitive product, legal issues (e.g., to whom you can or cannot sell), and the like. At the end of this phase, the initial contact is made or the appointment is set up. Once again, check your intended sales pitch for jargon or terms and phrases the customer is unlikely to understand. You want your argument to be compelling and logical for the customer and the sooner the customer can see the potential advantages, the more likely you are to successfully close the sale. What do you offer that is better than the competition? Go back to your value proposition and make sure you are correctly communicating it.46 This stage is certainly a bit harder than consumer selling where the potential customers may often just walk into your place of business. Some of the best salespeople for handling these sorts of clients are found in the computer and

electronics industry. They usually start off with a few questions to hone in on information to help them make their pitch: “Will you use your new computer for gaming, Internet searching, or word processing?” “Do you have a budget in mind?” “Who will be using this computer: you or your child?” Present: During the presentation phase, the salesperson presents a logical and compelling argument for purchasing the product. The more information the salesperson is able to obtain in the preparation phase, the better she or he is able to address potential concerns and point out specific features. Most salespeople emphasize the needs or wants their product can satisfy. You don’t sell features; you sell benefits. Presentations should be rehearsed and facts memorized, but the presentation should never appear canned. A good salesperson can and will adapt his presentation to his audience. Note that this is similar to suggestions in Chapter 8 on how to prepare and present an elevator pitch. It is much the same type of selling. Establishing a personal relationship helps. Take an interest in what clients like. Be prepared to spend a few minutes in idle chit-chat, but don’t waste their time. If they want to chat, fine, but when they want to get down to business, switch gears immediately. For walk-in clients, introduce yourself and if they give you their name, use it. Find out a little bit about them in the approach (remember the computer salesperson mentioned previously). Try to establish rapport—an emotional connection between you and the other person. Even simple statements like “I know what you mean; I hate that, too” make clients feel that you understand. Use technological language appropriate for your audience. Close: As you begin to wrap up your presentation, you will likely encounter objections as customers also anticipate the close of the sales pitch and the coming request for purchase. Customers nearly always have objections and the good salesperson is prepared to answer these objections. “Certainly the price is higher than our competitor’s, but we have 20 percent less downtime, making our product much more cost-effective.” Once the material has been presented and the objections answered, the salesperson needs to close the sale. The close is the commitment from the customer. There are a number of techniques including: Trial close (“Which credit card would you like to use to pay for that?”) Assumptive close (“I’ll just need your credit card for payment.”) Urgency close (“This rate will end at the end of the day.”) Alternate choice close (“Would you prefer the standard or deluxe model?”) Chances-are close (Customer asks to think about it and you say, “What are the chances you will buy later?”) Make-a-suggestion close (Offer a waffling customer suggestions on why it is a good idea to buy.) Try-before-you-buy close (Offer a trial period, if your business can handle that.) What-will-it-take close (Ask “What will it take to close this deal?”) Page 359 Additional closing techniques are discussed in Skill Module 10.3. SKILL MODULE 10.3 The Art of Closing47 Columnist Cord Cooper of Investor’s Business Daily has made a career of gathering tips on closing sales. His suggestions include: “Restate the need.” As Barbara Corcoran, chair of The Corcoran Group, a $2.5 billion New York City real estate firm and

author of the book Use What You've Got, suggests to get the customer's requirements and restate them. If you can do a better job of explaining the customer's needs, so much the better. Listen. It seems obvious, but it is the key to everything. Don't interrupt and listen for what seems important to the customer. Note needs your product can meet (and those it can't) and include the former in your response. Ask, "When would you want it?" This question is a great way to determine the degree of urgency the customer faces. Something needed "tomorrow" means making the sale now and could help the customer feel better. Get feedback. The more a customer will tell you about what he or she likes and dislikes, the better you can tailor your sales effort. Handle buyer's remorse. If someone is buying a big-ticket item, he or she might get nervous about the money being spent. While you're there, reinforce the customer's desire for the product by going over the benefits. Consider telling him or her of others' positive experiences, and think about calling the customer the next day to reinforce the benefits and value. Sell the result. Show customers specific beneficial outcomes from their use of your product. Use more than one outcome. High-quality items last longer and are more prestigious—use both benefits if they fit your customer's needs. Consider outcomes like service, delivery, financing terms, warranties, and extras in addition to cost. Take strategic advantage. This is done in several ways. Bring along your assistant to show you're important and to have another pair of eyes. Ask to be last so you don't have to compete with anyone else. And above all, practice. "Role-playing puts your inhibitions to rest and results in a well-prepared, confident delivery," says Corcoran, who started her firm with just $1,000. Be patient. Often if you ask for a decision before the customer is ready, the answer is "no." Accumulate "yeses." The more items you and the customer agree on, the more likely he or she is to agree to the sale. Arrange the discussion of needs and benefits to generate a lot of information, and a lot of yeses. Counter positively. When you hear something that makes you want to say "no," or "yes, but . . . ," instead try to phrase your response as "yes, and . . ." to show agreement. Follow up: Finally, the close is not the end of the sale. The important objective of following up is to make your customers feel at ease. Do this by staying with the clients for a few minutes postsale and get to know them. Have you ever bought something only to start second-guessing yourself in a couple days? Maybe you should have at least checked out the competition? Maybe you should have waited until it was on sale? This is known as cognitive dissonance and happens frequently especially with more expensive items or purchases that are considered risky. A good salesperson will often contact you during this time to reiterate all the good qualities of your purchase and to reassure you that you did indeed make a good decision. This is also a good time to ask for referrals. Follow-up may also include activities from others in your firm such as installation, warranty work, financing, and the like. Building long-term relationships is the key to successful business and taking care of a customer postpurchase goes a long way to building them.48

Customer Retention: Keeping and Growing Customers after the Sale 10-4 Recognize the major approaches to customer retention.  Every sale gives you the most valuable resource any business can get—a customer. It sounds obvious, but once you have been in business awhile you will learn that it is easier and more profitable to sell to existing customers than to prospect and attempt to sell to people who are not your customers. The founder of the modern quality movement, W. Edwards Deming, put it this way, “Profit in business comes from repeat customers; customers that boast about your product and service, and that bring friends with them.” How much easier is it to sell to existing customers? Literally five times easier, according to the research. Research shows it costs five times as much to get a purchase from a new customer compared to an existing one.49  The name for the general approach to keeping customers is called customer retention (CR). CR focuses on satisfying your customers after the sale, and managing your marketing efforts with customers to maximize their loyalty to and purchases from your business. There are three major elements to CR these days. One is handling problems that crop up after a sale. The second is called customer relationship management (CRM), which focuses on the longer-term monitoring and promotion of customer interest and loyalty. The third is growing customer sales, which builds from the customer development model of Blank and Dorf and the lean business practices movement.  Handling Postsale Problems In Chapter 9 we talked about how customer service is one of the truisms of why small businesses are better than large

ones, and even how small firms can achieve outstanding customer service. But in reality the hardest time to maintain good, much less outstanding, customer service is when dealing with postsale complaints. Small business is usually a personal business, so it is hard not to take complaints personally. But in the end, the ultimate test of any business is how it handles adversity, and complaints are probably the most frequent example of that ultimate test. Bill Gates said, “Your most unhappy customers are your greatest source of learning.” He had a point. Research has shown that anywhere from 68 to 96 percent of dissatisfied customers don’t report their dissatisfaction.50 One 2015 study showed that 19 percent of dissatisfied customers contacted their retailers, but 81 percent didn’t and of that latter group, at least 32 percent were reporting their negative experiences to others and finding other retailers.51 Why would they think this way? Of the 81 percent, three out of five of them felt it was not worth the trouble, while two out of five felt it wouldn’t do any good. So given how few upset customers complain to the firms, those that do are giving you a real chance to improve your operations, and to keep this customer and probably other, quieter ones, too. In reality, some complaints are justified52—a product or service arrived late, did not live up to (or worse yet match) the description, did not reflect the quoted price or discounts, was lower quality than the customer was led to expect, or was delivered by an impolite, uncaring, or unprofessional worker. A famous customer service thought came from Donald Porter, a vice president of British Airways, but it works equally well in small business: “Customers don’t expect you to be perfect. They do expect you to fix things when they go wrong.” Exhibit 10.2 gives you a four-step approach to dealing with these difficult situations. EXHIBIT 10.2Four Steps to Handling Postsale Problems53 Prepare yourself and listen. When you realize you are facing an angry customer, put yourself in a calm state of mind. Be open to the customer. As hard as it may seem, don’t get defensive—don’t take it personally. The more open and sympathetic you are, the better the chances for a positive outcome. If you’re caught off-guard, you’ll have to do this preparation in real time, in your head, but get yourself ready first. Accurately reflect. Once you’ve gotten yourself in a position to listen, accept the customer’s anger and ask him or her to tell you all about it. This is the first stage of defusing the situation. When you can repeat back what happened and how the customer sees it, and he or she agrees that you’ve “got it,” you’re ready to go to the next step. Apologize and start generating solutions. Sincerely apologize for the problem, even if you feel it wasn’t entirely your firm’s (or your) fault. This is the second stage of defusing the situation. Doing this positions you to start working on solutions, preferably with the customer. That solution-seeking is the third stage of defusing. Implement and follow up. When you have a solution you can both accept, implement it immediately. Give yourself a few minutes alone to recover. Then, a few days (no more than a week) later, call the customer (it’s more personal than emailing and the customer’s voice will give you clues as to his or her feelings) to see how things are going. If you can offer an incentive to deal

with your firm again (like a discount on a future purchase), do so, or at least ask the customer to ask for you the next time so you can take care of him or her. Your goal as the owner is at a minimum to come to an arrangement that the customer thinks is fair. In reality, creating a solution that renews the customer's belief in your business is a better solution. Why take the extra step? Keep in mind the value of a lifetime of this customer's purchases to help you realize how far you should go to keep him or her happy. Think about how far negative opinions or even grudging acceptance travels in these days of social media. It has never been easier to upset a customer and have him or her spread that negativity to friends and the wider public. Page 361 But it is also true that you will face customers with unjustified complaints. There is no magic phrase that disarms these explosive situations.54 Your job is to remain calm and stay focused on what you are willing to do. Some ways to handle this sort of problem include: Appeal to the customers' sense of fair play, saying you want to do what is right. Consider offering a compromise, giving them some (but not all) of what they seek. Suggest involving a third party like the Better Business Bureau to arbitrate. Consider politely standing firm only when the facts unquestionably back you up. Also consider politely giving in even when the demand is clearly unreasonable. Think about the stories you've heard about companies that go above and beyond, like Nordstrom taking back a customer's "recently" purchased tires (even though Nordstrom itself has never sold tires).55 Such stories do more to build everyone else's confidence in your firm than the cost of fixing the problem. • Upset customers, like this woman, can get overwrought. How can you handle postsale problems when they arise? ximagination/123RF When handling these complaints as a small business owner, it does not work to talk about "company policy" as a reason for inaction—as owner, you make the policies. It also never works to lose your cool and yell. It backs the customer into a corner (where you are likely to lose business if nothing else) and makes you look less professional. Finally, it does not work to argue with a customer. Winning these sorts of arguments may mean the end of the relationship with the customer. Know that dealing with postsale problems can make a major difference. Recall those 19 percent who complain. When the company solves the problem, 86 percent stay,56 and we know from other research those who stay are more likely to buy more in the future. Page 362 In the end, marketing is about sales, and in most businesses, the goal is to sell to the same customers again and again, as well as to get those customers to recommend your business to their network. Doing this well over the long run requires not only mastering the 4 Ps (product, promotion, price, and placement), but also handling postsale complaints. Your goal is to have satisfied customers, and in the end that is what business is all about. As Babson's Jeff Timmons says, "Happiness is a positive cash flow." And nothing generates cash like sales. For most start-ups, the keys to building a strong customer base are to work your original customer base by increasing market penetration and product expansion. We'll talk next

about ways to build a customer relationship management approach that does just that. CRM in Two Steps Entrepreneurs have always tracked their customers. It could be as simple as a 3 × 5 index card with the customer's name and contact information on it, the customer's family members' names, perhaps their sizes, and what major items they've bought and when. Today, of course, we use computers or web-based services to handle these kinds of chores, but the basic ideas remain the same, and the analysis of customer data is easier and more powerful than the previous generation of entrepreneurs could have imagined. This modern computerized approach is called customer relationship management (CRM). As in the old days, the necessities are pretty much the same: (1) gathering the data and (2) analyzing the data. Where there has been rapid growth in recent years has been in thinking about how to build on CRM-driven marketing efforts to increase sales, which we will cover in a later section. Step 1: Gathering the Data The key to CRM is the data on current or prospective customers. Given the power of repeat selling, the most valuable data come from your existing customers. For all existing customers you want two kinds of data—contact data and performance data. Contact data give you the particulars on your customers while performance data give you information on the date and type of contact, since in many sales situations it can take repeated contacts before a sale is made. Some of this information might be entered by the customer, for example, when buying online or filling out a delivery form in your store, or it could be done by you or an employee. As noted, when you are building a prospect database for your CRM efforts, the names and contact data usually come from a variety of sources outside your firm. There is no need to build a CRM program. You can get high-quality CRM programs for free. If you want to see what the high-end CRM looks like, check out Salesforce.com (a commercial product) or the free CRMs listed in the accompanying "Learn More Online" box. LEARN MORE ONLINE Learn more about the topics above at these sites: HubSpot (free for any number of users): www.hubspot.com Agile CRM (free for any number of users): www.agilecrm.com Zoho CRM (free for three users): www.zoho.com In effect, a CRM is a beefed-up version of your smartphone's address book or your email contact list. In fact, most CRM programs let you import your contact list or address book to help get your CRM database going. They also can usually import spreadsheets and data in other forms. These CRMs are beefed-up in that they add dozens of additional fields that help you track and classify the people you engage in business. You can get a sense of the kinds of information a CRM is organized to handle in Table 10.2. For example, customers are often tracked by where they are in the buying process shown in the funnels at the start of the chapter (impressions/awareness, leads/interest, prospects/consideration, sales/purchase). Don't worry, most entrepreneurs leave a lot of fields empty—at least at first—until you decide what is important to you. That importance comes up in terms of the reports that CRM programs let you run: the analysis step. TABLE 10.2 Example: Types of Key Data in a CRM DatabaseTable Summary: Table

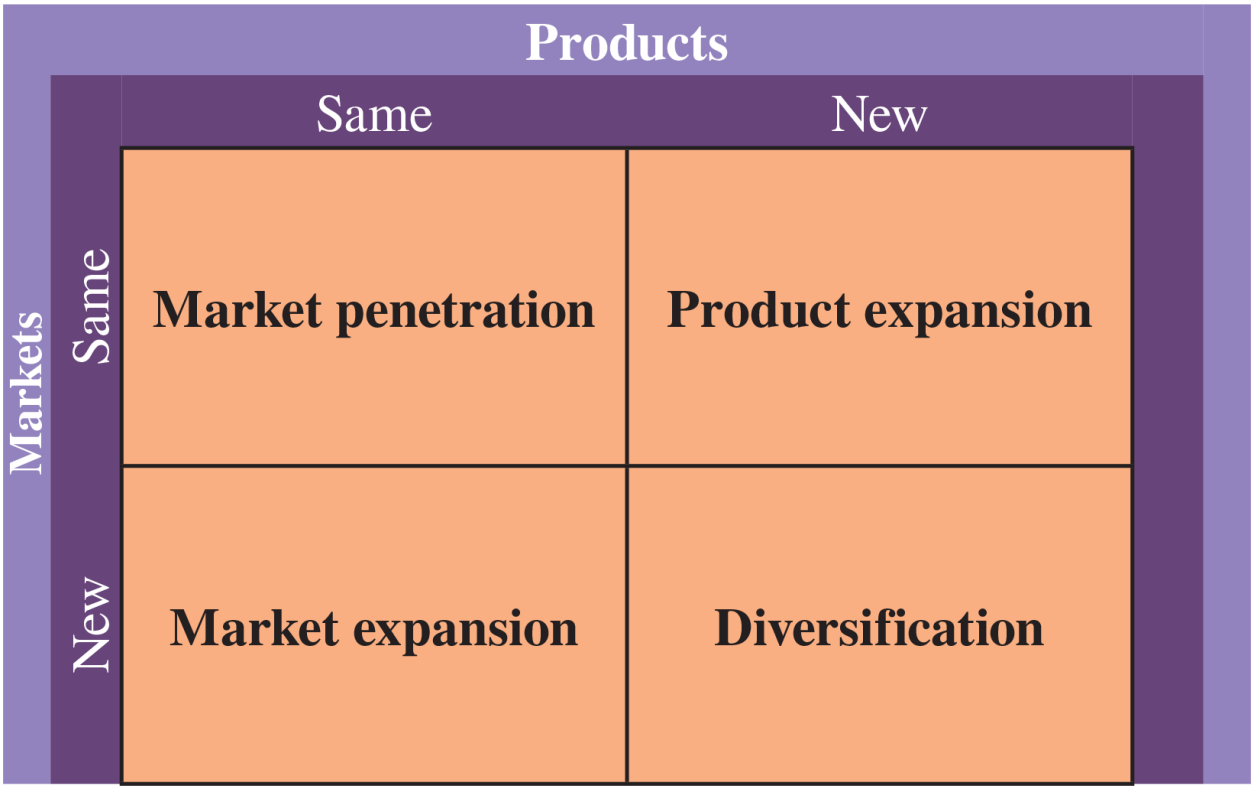
summarizes three types of information stored in CRM database with corresponding examples. Contact data  Person and firm  Unique customer ID number  Basic address book/contact card information  Basic firm information (name, contact information, etc.) Basic demographics (age, gender, and other data specific to your business, such as sizes for clothing firms, education for professional training firms, etc.)  Source  Sales  Referral from customer (give customer ID)  Mailing list (specify which one)  Performance data Purchases: product/service, quantity, price, discounts, date, sales setting (online, in-store, at a show or fair, etc.), related purchases (e.g., delivery, setup, refills, warranty) Nonpurchase events: Other visits without purchases, website visits without purchases, telephone contacts, other contacts  Follow-ups: Actions, date, future actions, customer reactions  Follow-throughs: Actions, date, future actions, customer reactions  Page 363 Step 2: Analyzing the Data There are three general types of reports that you are likely to be interested in. Each CRM has different names for the categories, but the specific report names tend to be very similar. The types are:  Customer vector reports let you summarize information by date, by product or service being sold, by groups or segments of customers (e.g., all firms in NAICS 453310—antique dealers, all customers from California), or by the purchases of an individual person or firm.  Sales process reports summarize data based on where customers are in the sales process (impressions/awareness, leads/interest, prospects/consideration, sales/purchase) and what you have done with these individuals. In particular, tracking prospects and leads is essential to get an early sense of where sales are likely to be going.  Sales outcome reports summarize issues around the actual sales, like the amount, how long it took from first contact to completed sale (called the sales cycle), and the eventual conversion rates.  Reports such as these can help you decide how to operate several key aspects of your marketing effort. If you track sales by purchase basis, you can tell which of your advertising efforts resulted in the most sales, so it makes it easier to decide which marketing efforts to continue or expand as in the case of the Union National Community Bank in the accompanying Small Business Insight. If you link sales and purchase basis to the type of customer (by industry, location, education, or age) you might figure out how to better target ads or promotions to particular types of customers. If you look at customer source basis and purchase, you might be able to tell which mailing lists produce the best returns. You could also find a product that has low quality by tracking sales organized by product and customer satisfaction. As these varied examples show, the possibilities are nearly endless, even with basic data.  But perhaps the simplest and most important analysis is sales by customer. In marketing, there is a strong belief that 20 percent of your customers give you 80 percent of your sales. The key is identifying which customers are in that 20 percent and once you have, doing everything you can to keep them, and keep them happy. In the hustle and bustle of the day, you might come to believe that the loudest or most demanding people are your biggest customers, but often a sales-

by-customer analysis lets you identify quiet, easygoing customers who are nonetheless major purchasers, and who are the ones you would otherwise be most likely to overlook. Page 364 Customer analysis can get significantly more complex, and there are whole courses and segments of the marketing profession focused on performing and interpreting those complex analyses. However, you can get your own 80 percent of benefit from performing the simple basic 20 percent of analysis outlined here. SMALL BUSINESS INSIGHT Union National Community Bank57 Union National Community Bank (UNCB) in tiny Mount Joy, Pennsylvania, was founded in 1853 and pretty much had the local market to itself until the big national banks moved in during the 1990s. Facing competitors offering more and better services and lower rates, UNCB lost customers. Although it lowered its loan rates and offered higher returns for deposits, it could not make up the lost business. Then the bank installed a CRM system and had a revelation when it saw a report of customers segmented by how profitable they were. With this information in hand, the bank identified the customers most important to the bottom line, and offered those people more of the services they had shown they liked. Less profitable customers were directed to services like electronic banking, which in turn helped make even this segment profitable. The CRM approach helped turn around the bank's fortunes, with more than $1 million in increased revenue and a profit increase of 35 percent. For the bank, CRM made a big difference. Growing Customer Sales The goal of all this data gathering and analysis is to increase your sales and help make your marketing efforts as economical as possible. The proof of a CRM effort is seen in (1) higher levels of customer loyalty in existing customers, (2) higher levels of purchasing from your existing customers, and (3) more tracked prospects making initial purchases from you. The techniques for managing current and prospective customers are actually very similar, and tie together many of the techniques we have talked about throughout this section of the book. Fundamentally, the keys to customer service are follow-through and follow-up. Follow-through refers to doing what you said you would do. If a customer mentions a concern or problem, you will of course try to fix it. But too often entrepreneurs or their employees can get rushed, and delay or even forget about what they promised customers. If you remember to keep up your CRM database (which is the biggest problem for entrepreneurs), a good CRM system will remind you of the promises you have made. Follow-up refers to the contacts you periodically make with customers in order to remind them of your business, and your interest in their business. This can be done through personal contacts by phone, mail, or personal visits, although increasingly contact is done electronically through emails, electronic newsletters, discussion lists, or interactive web services like blogs or wikis. The advantage of the electronic approaches is they can dramatically lower the cost of marketing efforts by saving you printing and mailing costs. Additionally, electronic marketing aids can get into your customers' hands in minutes or hours rather than days. The interactive approaches

also give you a chance to hear ideas and concerns from customers directly and immediately, giving you a chance to resolve problems quickly and even get new prospects for products and services to offer from those who have the need. The essential aspect of follow-up is to take the initiative to stay in contact. But realize that as you tie more of your marketing efforts (e.g., email campaigns, trade show lists, referrals, etc.) into your CRM, you can begin to significantly expand the kinds of marketing you can pursue. You can move beyond existing customers to focus more on new markets and new products. There are four approaches to growing your business, seen in Figure 10.6. Selling the same products to the same customers is called a market penetration approach, while selling the same customers a new product is called product expansion. When selling to your existing customers, you have the benefit of being able to use data you have gathered in your prior customer contacts. FIGURE 10.6The Strategies of Market Growth Source: William O. Bearden, Thomas N. Ingram, and Raymond W. Laforge, Marketing: Principles and Perspectives, 4th ed. (Burr Ridge, IL: McGraw-Hill/Irwin, 2004), p. 57. Page 365 If you are looking at people who have not been customers, you might seek a market expansion strategy to sell your existing products to them (this is where prospecting comes in), or a diversification strategy if you are trying to sell them newly developed products (e.g., your new lines). In such cases, you might get prospects' contact information from referrals by existing customers (the approach likely to give you the best results), purchases of mailing or customer lists from marketing list big businesses like Dun & Bradstreet or Donnelly or from smaller specialized list firms such as Direct Media or USADATA, or from organizations whose members might be particularly interested in your product or service (e.g., a local kennel club's member list if you had a pet grooming business). Wherever you get the information, it goes into your CRM to generate new reports to help plot the best places to grow your business. The Mechanics of Growing Customer Sales Think back to the customer development model double funnels in Figures 10.2 and 10.3 at the beginning of this chapter. We discussed the "Get Customers" or promotion portion earlier. Here is where we look at one of the lean business practices' contribution to small business in general, giving us a better way to visualize and think about the steps in growing our connection and sales to our existing customers. Recall that increasing sales to existing customers is the fastest and least expensive road to higher profits. Remember that the more you build relationships and sales through keeping your customers happy and their needs met, the more likely they are to recommend you to their connections, further building sales at next to no cost. It is the best way to grow your business and profits. "Keep Customers" in the middle section of the physical products funnel reflects a time when you take steps to hold onto existing customers to get them to continue to buy your product and hopefully recommend it to friends and employers. This typically involves four kinds of activities: (1) creating and deploying (or selling) product updates; (2) checking-in with

customers by phone, email, or social media as we talked about follow-up and follow-through; (3) asking customers to participate in customer satisfaction surveys by phone, email, or online; and (4) operating loyalty programs where customers get points or benefits for actions related to what they've bought which can lead to additional free or discounted gifts, accessories, updates, or other promotions.58 Loyalty programs and other types of sales promotion are discussed in more detail in Chapter 11 as part of pricing. Keeping customers in the online world involves using similar approaches such as product updates and loyalty programs, but also including new approaches like (1) blogs, RSS feeds, emails, and feeds through social media outlets or phone text messages; (2) contests and online or real-world events to involve customers; and (3) outreach programs. These approaches are more or less online versions of check-in programs, based in part on the greater ability to track customers' interactions with your website so you can identify who has and hasn't used your service. You can follow up with welcome emails, how-to guides, and even phone calls to help the customer start using the service. Note that these online channel approaches can be adapted for physical channels, and the reverse is true too. Think of McDonald's Monopoly game—a contest run by a company in the physical channel. Page 366 Steve Blank and Bob Dorf's "Grow Customers" section of the funnels represents a clean and simple model to show how existing customers can be approached to grow sales.59 They have already committed to your firm, and to your products or services. If you've done a good job of connecting and listening to your customers, they should have a favorable attitude toward your firm and offerings. This primes the pump for additional sales to them. These additional sales can take four forms in the physical world: Unbundling: To unbundle means to break apart a product or service into components. An example would be for your cable package to offer the ability to drop news or children's networks to get a savings. Up-selling: This is selling additional accessories or higher-quality (and probably higher-profit) versions of the product at a higher cost. Sticking with the example of cable, when they ask if you want the NFL All-Game package on top of your regular sports channels, the company is up-selling you. Cross-selling: To cross-sell means to sell related products. For cable services, the typical cross-selling comes from adding on deals for Internet access or landline telephone. Referrals: Getting customers to refer their friends to you is a major way to grow sales because those friends are hearing about you from a source they trust. One of the findings that made social media valuable to entrepreneurs was learning how powerful friend referrals are on future sales to those people. Rewarding current customers for referring new customers to you is a great way to build sales inexpensively, and further tie current customers closer to your business. In the online world, the right-hand side of the funnel also has familiar concepts like Up-Sell, Cross-Sell, and Referral, but also adds Next-Sell, which are your attempts to prime customers to make their next purchase. Examples include reminding you how long it has been since your last

purchase of a perishable or expendable product (like an air conditioner filter), or offering customers an automatic reorder service for scheduled shipments of perishable/expendable products. The point is that whether you are thinking big picture and seeking new places to sell, like through market expansions or new product offerings, or going deeper into your existing customer base to leverage your relationships to deepen connections and sales, the entrepreneur can always find new ways to grow his or her business. That's what the goal of marketing is all about. As you think about these efforts, one of the biggest challenges for the entrepreneur is estimating what those possible sales will be. The firm's ability to imagine and deal with the future depends on it, and that is what we will cover next.




Sales Forecasting60 10-5 Identify sales forecasting methods. One of the most important pieces of the marketing efforts, and the part that will feed directly into your financial projections for your business (or your business plan), is knowing what your sales will be. Sales determine your profitability and, ultimately, whether you will stay in business or not. Sales projections are also the basis for estimating how much money you will generate in the near future. If your forecast is off, your firm could run out of money earlier than expected. So sales forecasts are vitally important. The CRM services mentioned in the prior section actually come with sales forecasting modules that can look at your sales for the past week, month, or quarter and project forward. This is exactly the process used by existing companies—basing sales forecasts on what are called historical sales; but since you're new, you can't do that. Fortunately, there are also much simpler ways of coming up with reasonably good initial estimates, such as the one shown in Skill Module 10.4 and the techniques described next. SKILL MODULE 10.4 Sales Forecasting from a Fixed Inventory Let's start with a simple reselling example. You will buy St. Louis Cardinals Adjustable Baseball Caps (with the MLB logo sticker showing it is official) from a St. Louis area Walmart. The caps retail for $5.00, but you talked the store manager into giving you a deal on 100 of them for $4.25 each. Go to shopping.google.com and type in "St. Louis Cardinals Cap." In summer 2019 around 350 possibilities came up, with prices ranging from $5.00 to

$62.19.  Now look at the types of caps being offered. The red cap you got from Walmart is the most distinctive of the types, and let's say that only two vendors sell a similar cap. One is on eBay and the other is available at an online store. Both sell the cap at $9.98, shipping included. This is your baseline price, unless you think you can sell at a premium. Since you have 100 caps, your forecast is how long it will take to sell them. You can track the cap seller on eBay to see how long it takes for the "in stock" number to drop, and then multiply that number of days by 100 to figure how long you can expect your stock to last. (If you track sales of the other types of caps, you can learn which are the most in demand and perhaps buy a different type of cap next time.)  You could speed up your sales by going to stores around the Cardinals' stadium on game day and selling the store owner some additional caps, or (if your peddler's license is valid) even sell caps outside the stadium itself. At $10.00 a cap you will be undercutting the competition, and should be able to sell all 100 in one afternoon or evening game. A quick Google check shows the stadium seats 44,494, and most games are at 70 percent capacity, so you're looking at 31,146 people. If one person in 311 buys your hats, you'll sell out in one game. By the way, if you're selling out too fast, raise the prices until your hats keep moving, but at a 100-hats-a-game rate. Some products or services are tied to others. For example, if your company lays sod for new lawns, you can estimate the total market by looking at projected new homes being built in your geographic area. From there, you'll need to calculate what percentage of that market you can get. In other words, what's the competition like, and how do you measure up? If the market is underserved and all the competition is relatively equal in terms of size, product, price, service, and such, you might be able to divide the total market by the number of competitors, and maybe deduct a percentage "just to be safe" since you are relatively new. For example, perhaps the three existing firms will cover 85 percent of the business, and you'll only get 15 percent the first year. On the other hand, if you, or your competitor, offer unique products or services or have other advantages (or disadvantages), these can factor in. Using the same example, if you are the only firm offering in-ground sprinkler installation as well, you may be able to capture a larger portion of the market, or maybe most of a subsection of the market—in this case, perhaps the more expensive homes.  Page 367  Some products are not tied as neatly to others. If you are opening a restaurant, looking at the number of people who eat out in your particular geographic area won't cut it. Some folks eat only fast food. Others don't like Chinese cuisine. Some go out only for breakfast. As a result, there are many different types of restaurant customers.  This is a good situation for some marketing research. You could conduct traffic counts during the hours you'll be open. You could stop a number of people to ask them how often they eat out and what type of restaurant they are likely to choose (and whether they think they'd like to try yours—a little word-of-mouth advertising). You could stop by your competition and see how long the waiting lists are or pick up a menu and see what prices they are

charging. From these items you can get an idea of how many customers you might get.61 This is certainly "softer" than the first method of estimating and is slightly more subject to error (both overestimation and underestimation). However, for most products this is the best information you can get. This is also the time to verify that the potential market you've identified meets your capacity. If your restaurant will serve only 120 people over the hours you are open and the potential market is 300, you need to use your capacity figure, not your potential market figure. (You may also want to consider a larger space, more tables, more hours, more staff, or other ways of handling this unexpected extra market, if not immediately, at least for the future.) On the other hand, if your potential market is only 50, is that enough to be profitable? (Or can you lease a smaller, less expensive place or cut costs elsewhere to make your business profitable?) One of the key issues in determining your number of customers is assessing your hit rate, how many prospects you need to approach in order to make one sale. In our baseball cap example, with 31,146 people in the stadium, how many people pass by the seller (impressions), how many notice the hat stand (leads), and how many stop to check out the hats (prospects). How many of the prospects actually buy a hat? That is the hit rate. It is better to do even a small-scale sales effort to get a realistic sense of your hit rate than guess about this crucial metric. It is important because the hit rate is a key factor in your eventual financial projections. Page 368 Once you have figured out the number of possible customers and your hit rate, the next step is to estimate the average amount of sales per customer. This is usually a little easier; if your lunch prices range from $10 to $15, you could select the average price, or, more conservatively, assume everyone will eat the least expensive meal. If you are selling a product, see what competitive products are going for in the market. Using traditional retailers and distributors nearly always quadruples the price you set "at the factory." You know what your costs will be and you know what profit you need; does this price the product beyond the competition? If so, can you find a way to convince your customers of your extra value, to cut your costs in production, or to use a different distribution channel? (More about that is covered in the other marketing chapters.) Are your prices below that of the competition? While this doesn't sound like it could be a problem, it might be a signal for you to double-check all your assumptions to make sure you didn't miss an important step. (Also, lower prices sometimes cause customers to doubt the quality; you expect more from a $10 T-shirt than from a $2 one.) If you are selling online, a search will bring up competitive products. Or use some of the pricing bots such as Google product (google.com/shopping), eBay.com, and Amazon.com for products, or Upwork.com or and Fiverr.com for services to come up with the best prices.62 For other products, try an Internet search of "your product price bot." If your prices seem too high or too low, rethink how you calculated your costs, your product, and your method of distribution, or determine how you can create enough value for your customer to choose you over the competitive

products out there. When you have the estimated number of prospective customers, the hit rate for sales, and the amount of each sale, you have the basic numbers for creating your sales forecast: Prospective customers × Hit rate × Sale amount = Sales forecast In many cases, the best sales forecast you can come up with is another educated guess. Consider the assumptions you made and try to justify why you made them. Try to anticipate questions that you will be asked and consider your answers beforehand. In some cases you may want to look at several levels of sales forecast—an optimistic, average, and pessimistic view.63 With these numbers for sales forecasts, another good check on your business sense is to compare the sales projection to your cost of marketing, advertising, and selling. If your sales aren't covering these sales-related costs, it's a clear message to change your marketing efforts or find different customers.64 When making those first sales estimates, although you might want to be optimistic when talking to potential investors, when it is your business and your budget on the line it is better to have a conservative (i.e., low) sales projection initially and base your upcoming expenditures on that lower number than believe your optimistic estimate, and spend based on it happening, only to discover you've spent money you haven't made yet. If "Happiness is a positive cash flow," make sure the sales estimate you believe will be a positive one—low, maybe, but a low but real number is better than being broke.

CHAPTER SUMMARY 10-1 Describe the marketing funnel and the stages in the customer development process. The marketing funnel relates promotional impressions to firm sales. The value of promotion is directly tied to the sales it produces. The customer development process funnels expand on the classic marketing funnel. 10-2 Recognize the PESO Model of the promotional media landscape. PESO stands for paid, earned, shared and owned media. Brand is at the center of the PESO model and drives it. Owned media represent identity and promotional materials that belong to your firm, like name, websites, logos, locations, and your own marketing materials. Social media embassies combine owned and shared media and are your company and product pages on social media sites. Shared media are when customers and others mention your business and their experience of it on any social media platform. Partnerships combine shared and earned media and represent situations where your business works with other organizations in joint efforts such as co-branding, influencer marketing, donations, or community service. Earned media (aka publicity or free ink) are mentions of your business in mass media or among the public for which you did not directly pay. Page 369 Media integration combines earned media and paid media and represents efforts you pay for to generate earned media attention, such as contests, lead generation, and advertorials. Paid media describe the many forms of paid advertising in print, TV, radio, cable, out-of-home, and Internet platforms. Incentive media

combine paid and owned media and refer to paid representatives of your business, like brand ambassadors, affiliate programs, native advertising, and sponsored content. 10-3 Apply the key skills involved in personal selling, especially closing the sale. Recognize the importance of personal selling. Key processes of personal selling include prospect and evaluate, prepare, present, and close. The art of closing the sale includes: Restate the need. "When would you want it?" Get feedback. Forewarn customers about buyer's remorse. Practice. If your buyer gets cold feet, unfurl more benefits. Weigh the angles before you start. Don't outbid yourself when bidding on a project—counter with care. Accumulate "yeses." Follow up the sale (in order to stimulate referrals, encourage repurchasing, and prevent cognitive dissonance). 10-4 Recognize the major approaches to customer retention. Handling complaints impersonally but empathetically is a particular challenge in small businesses. The goal in resolving all complaints is to keep good customers satisfied with your firm. Postsale success depends on customer relationship management (CRM), driven by keeping and analyzing data on existing and prospective customers. Market expansion, market penetration, product expansion, and diversification are strategies for market growth. Utilizing techniques to keep customers engaged and loyal, and grow additional sales to them is key to firm success. 10-5 Identify sales forecasting methods. If your product or service is a component of another product or tied directly to another product or service, your estimated sales can be calculated as a portion of this known number. Most products and services, however, will require "softer" estimates such as traffic counts or questionnaire results. Getting a "hit rate" based on some real-world experience will be crucial to making good sales forecasts. This sales forecast is critical to and must be checked against your capacity and cost of sales.

KEY TERMS impression sales leads prospects marketing funnel advertising paid media owned media shared media earned media promotional mix social media embassies media partnerships media integration incentive media brand brand promise hashtag domain name succinct message business directory sites user review sites social media management platform word of mouth viral marketing trade or professional associations sponsorship co-branding co-marketing influencers donations community service virtuous cycle free ink newsworthy events media kit business profile kits press release lead generation advertorials OOH key performance indicators (KPIs) organic traffic search engine optimization (SEO) keywords and description tags affiliate marketing Page 370 brand ambassadors native advertising sponsored content media content strategy plan personal selling cognitive dissonance customer retention (CR) customer relationship management (CRM) customer vector report market penetration product

expansion market expansion diversification unbundle up-selling cross-selling referrals hit rate bot

DISCUSSION QUESTIONS What are some ways that you see small business owners promote their products or services? Provide examples of your perception of their value proposition to each of the markets they are currently targeting. In your opinion, how effective do you think some of their messages are? In your opinion, what do you think is the most effective and efficient way for small business owners to promote and market their products or services? Why? How have you seen the use of referrals and word-of-mouth advertising work to the benefit of a small business owner? Provide examples. How have these methods worked in reverse (to the disadvantage of the owner, but possibly to the benefit of the competition)? Recall the last time you purchased a product or service from a small firm. Did it use any of the techniques or skills involved in personal selling? How did the salesperson close the sale with you? Imagine a brand-new customer of your online e-book service had bought an e-book and a day later emails you she wants a refund, saying the e-book didn't open and she no longer wants to see it. Others have been able to open it and so can you. You suspect she is just pirating the e-book and wants her money back. How would you resolve her complaint? If the DVD had an obvious problem opening on some computers (say one using a non-Adobe PDF reader), would it make any difference in how you would resolve the complaint? Think about your product or service. How can you extend your offerings to better keep and grow your customers?

EXPERIENTIAL EXERCISES Collect promotional materials from a small business in your area. These can include coupons, loyalty programs, special tie-ins, special events, advertisements, or any other promotional materials. Using these materials, answer the following questions: What is the owner trying to achieve with these promotions? What are the goals and objectives of each? If you take the various promotions as a portfolio, what overall goal do they have? What incentives (for the customer) are embedded in the promotion materials? What business image or business characteristics do these promotions convey or imply? Assuming limited funds, how would you improve the promotions for this business? Be sure to tie your ideas to specific goals. Create a Google AdWords account at www.google.com/adwords (it's free), and load the keyword tool. Enter the keyword "day care" to see the kinds of related search terms come up, and the level of competition for ads using the different search terms. How could you limit the keywords you buy to minimize your cost and maximize your impact? Go to www.ionos.com/ to find out what it would cost for a domain name and a basic website. When asked for a desired web

address, give a made-up name (not one you might want to buy later on) and see what it would cost to register the name for the different top-level domains (.com, .net, .biz, etc.). Also price the business websites to see what is offered, and how those might expand your marketing opportunities. Read your local newspaper for information about a small business that you think stems from a publicity effort (e.g., new location or management, product line shift or expansion, special events, or promotions). Compare the information in the article to website information and to business advertisements for the same business. What are the differences and similarities? Advantages and disadvantages (for the business and for the customer)? Page 371 Inc. magazine is a leading resource for small businesses. Download its media kit at https://mediakit.inc.com/. Based on the information in the kit, what approach would work best for you—email using the magazine's dedicated email subscriber list or its e-newsletter subscriber list? Imagine that you own a small independent bookstore. You are holding a special reading and book signing by a well-known author: Describe what your goal(s) might be in arranging this event. Write a press release for the event. What other events might support the same goal(s)? Describe how you might use this information in crafting a newspaper advertisement for the store. Compare the press release, the ad, and any other events arranged in terms of overall promotional strategy for the store.

MINI-CASE GOING VIRAL MAKES FOR A HEALTHIER FIRM65 Dr. Bob Wagstaff (a biochemist and nutritionist) developed the Orabrush to scrape bad breath–causing particles off the tongue. He got the Orabrush patented and approved by the FDA. He got it manufactured and worked hard to get it onto the shelves of drugstores and supermarkets. He had some success with smaller chains, but sales were below his expectations. He tried making an infomercial, which cost him around $40,000, but it produced only a few hundred more Orabrush sales. Thinking bigger marketing clout would make the product into a success, he tried marketing the patent to oral hygiene companies, but no one took him up on his offer. He went to a marketing class at Brigham Young University and received advice from students in the class. He hoped that the young people could tell him how to sell more Orabrushes over the Internet. A survey a class team conducted showed 92 percent of the respondents wouldn't buy an Orabrush online, and the students on the team concluded that the Internet approach was not workable. However, another student in the class, Jeffrey Harmon, had a different interpretation. Jeffrey suggested that with millions of people watching videos on the Internet every day, getting 8 percent of that group to buy an Orabrush would still be an enormous market. After class "Dr. Bob" asked Jeffrey to help

him market Orabrush on the web, giving Jeffrey his old motorcycle as payment. Jeffrey recruited a co-worker named Austin Craig to be the video's pitchman for $100. He got scriptwriter friend Joel Ackerman to write the script and film major Devin Graham to film the video. Total cost? About $500. It was actually recorded in the back room of a pool hall—so that really is a clinking sound in the background of the video. The video went viral on YouTube, racking up millions of views and igniting sales of the Orabrush, with close to 1 million brushes sold over the next two years. Note: Videos related to the case include Story of Orabrush, www.youtube.com/watch?v=p4tuTi8_z6Q; original YouTube video: www.youtube.com/watch?v=nFeb6YBftHE. CASE DISCUSSION QUESTIONS Why do you think a YouTube video worked better than a professionally done infomercial? How were Dr. Bob and Jeffrey able to get so much done for so little money? How could you apply this in starting your own business? Dr. Bob had tried traditional media and pursuing traditional outlets for the Orabrush. Why do you think his sales were not up to his expectations? Explain how having 8 percent of the potential market to draw from could still be a worthwhile strategy for a small business.

CHAPTER 11 Small Business Pricing, Distribution, and Location Page 373 LEARNING OBJECTIVES After you complete this chapter, you will be able to: LO 11-1 Understand why pricing is an important but complex and difficult task for small business. LO 11-2 Recognize the different pricing strategies that could apply to your product or service. LO 11-3 Understand the types of sales promotion available to small businesses. LO 11-4 Recognize the different types of direct marketing and their pros and cons. LO 11-5 Learn how to do nondirect distribution. LO 11-6 Differentiate the types of international strategies. LO 11-7 Identify the factors to consider in selecting your business location. LO 11-8 Recognize the key issues in leasing. LO 11-9 Know what to look for in evaluating a potential site layout. • Steve Niewulis's original marketing efforts focused on major sports stores. When that wasn't successful, he altered the way he marketed his product. Can you think of other methods that he might have employed to create interest in his product? BLOOMimage/Getty Images Focus on Small Business: Steve Niewulis and Tap It!1 Steve Niewulis, a minor league baseball player, came up with a solution to a problem all baseball players have—keeping the baseball bat handle dry between pitches. He invented Just Tap It!, a rosin bag attached to a wristband so a player could dry the bat handle between pitches. While it seemed like the perfect product for all the major sports stores, the stores were not interested because they prefer to buy from companies with several products in their product lines. Undeterred, he began attending trade shows and association meetings for high school coaches, tennis association meetings, and other similar venues. He was able to set up a booth displaying his product for just a few hundred dollars, and he created

interest, recognition, and sales. At one show, he met up with Baseball Express, a catalog that targets high school, college, and minor league teams. Since he already had orders and customers using the product, he was able to show Baseball Express that this was a product it should carry. As a result, Niewulis sold thousands of Tap It! units not only to baseball players, but also to athletes who participate in other sports such as basketball, tennis, golf, and rock climbing.  DISCUSSION QUESTIONS Niewulis's original intent was to market to major sports stores. How would you describe the market he finally targeted? Is there a commonality?  What other methods could Niewulis use to get this product to his customers?  Would this method have worked as well had the product been something like baked goods? Or mural painting? What methods would work better for these sorts of products?

Pricing 11-1 Understand why pricing is an important but complex and difficult task for small business. The act of writing down a price on a tag and putting it on your product is one of the easiest and most quickly done actions an entrepreneur can take. But for most entrepreneurs, setting a price for your good or service is one of the toughest decisions you will face. This is because price is central to how much you can make on each sale and that relates to your personal income. It can also determine how many sales you are likely to make. In addition, price can convey a sense about the quality of your firm and your product like the Kryptonite lock in the following Small Business Insight. So setting a price can be emotionally difficult. It is also subject to various complexities and a lot of second-guessing. Since most goods and services are imitative, there are competing alternatives in the marketplace, so many potential customers have an idea of what something should cost. There are computations you can do to help inform your decisions, but they take a bit of time and thought. However, computations cannot provide hard and fast answers because they are subject to the quality of the data put in, the assumptions you make and their fit to the reality of your firm, and the interpretation of the resulting answers. Price also depends on your magic number and strategy (see Chapter 7), your target audience and value proposition (see Chapter 9), and the costs of your business (see Chapter 12). SMALL BUSINESS INSIGHT The Story of Kryptonite2 • Kryptonite's rise from idea stage to its current status of multimillion-dollar market leader is a story of consistently innovative product development, competitive pricing, and creative marketing. How does Kryptonite's story reflect product development and pricing? Photo by Kryptonic®, A registered trademark of Schlage Lock Company. How do you build a strong brand on a small budget? The Kryptonite Lock Company (www.kryptonitelock.com/) has found the answer and now owns more than 60 percent of the North American bike lock market. Back in 1972, Michael Zane founded Kryptonite and created a unique premium-priced "U-shaped" lock that changed the face of bicycle locks forever. By mid-1972, Kryptonite was so convinced of its product's superiority that it began offering the first antitheft guarantee to protect against bike theft caused by lock failure. In the early 1980s, the U-shaped locks were gaining acceptance as a strong security measure. Additionally, with its commitment to creating high-quality products, Kryptonite rose to become the leader of bike security technology. Competitors then began to aggressively target the company and captured the low-end market. Kryptonite's response was to introduce the lower-cost KryptoLok in 1988, again increasing market share. The KryptoLok helped offer a wider range of products at different price points. In 1989, with the increased popularity of mountain bikes, Kryptonite introduced the ATB (all-terrain bike) model, further diversifying its product offerings. In 1992, the Evolution 2000 was introduced with a stronger Kryptonite steel. In 1994, in response to a new method New York City thieves were using to break locks, the New York Lock was introduced with a flurry of hype. Zane locked up his own bike on the streets of

New York and sat in a surveillance van for 48 hours with a New York Post reporter. Together they watched as several would-be thieves tried unsuccessfully to steal his bike. Now known for product innovation and attention to customer needs, Kryptonite continues to add new products and sustain their premium price. In addition to bike locks, Kryptonite offers a complete line of security devices for motorcycles, sporting goods, skis, and snowboards as well as travelers' security locks, and it sells these products in over 50 countries. Attention to detail and to changing customer needs has earned Kryptonite the reputation as the number one bike lock brand in the world. Not bad for a bearded kid who started with only a VW van and a big idea. Simply put, your fundamental goal should be setting the optimum price, the price that would generate the most income possible for the product or service you are selling over the course of a year. If your sales are less than you expect, you will end up asking yourself, "Are my prices too high?" On the other hand, if sales are exceeding expectations, you will end up asking, "Are my prices too low? Am I leaving money on the table?" There are four key factors for determining an optimum price: Demand for the product or service: Where demand is high, you can charge a premium. Where it is low, you need to consider lowering prices to keep cash flowing into the business. Value delivered to the customer: You can buy hair-coloring kits at the supermarket for $8, and a single use of professional products would not cost more, but having a professional do the job with professional products and expertise can easily cost 10 times as much—and many people gladly pay it. Prices set by competing firms: If a liter of Coke costs a dollar, few are likely to pay $2 for a liter of Pepsi. Your business strategy and product placement: A company that prides itself on an environmentally conscious approach to manufacturing probably would not choose to use cheaper, unrecycled components, even if it helped profits. Failing to set the right price is one of the greatest problems facing small businesses. Why does this happen? Often entrepreneurs set prices using some more or less arbitrary heuristic, or rule of thumb. In other words, they guess at what the best price should be using some formula such as "add 40 percent to what I pay for the product," or "set prices so that the cost of the food on the plate is no more than 35 percent of the menu price." But is that rule of thumb any good? Does it apply to the specifics of your business? Are you willing to risk your income and survival on that rule of thumb? A much better approach for you is to take the time to understand pricing, develop that optimum price, and then monitor and adjust it to work for you and your business. In the following sections we will talk about the key ideas behind setting a price that is advantageous for you. We will start by talking about the fundamentals of setting a price—margin pricing and elasticity, value and contextual factors—and follow it up with a rundown of the amazing number of different tactics for adjusting price to fit the many situations your firm may face once it is in operation. The Fundamentals of Pricing: Margin Pricing and Elasticity Recall in Chapter 7 we showed you how to find your magic number: the posttax

income you wanted from your business. In that example, a person who wanted $24,000 a year after taxes would need annual sales of $135,208. If you imagine yourself in a five-day-a-week business (i.e., 250 working days a year), that would work out to $541 of sales per day. Here is where you start making decisions. Page 375 Imagine you were selling custom-designed T-shirts and your first thought was to price them at $20 each, based on what you've paid for similar T-shirts in the past. Exhibit 11.1 shows you the costs. To get to your $541 in sales you would need to be able to sell 28 T-shirts a day—more than 3 T-shirts every hour! This assumes you are selling online or in-person wherever you are so you don't have to add costs for rent, displays, and the other things that go with a storefront. EXHIBIT 11.1Computing Margin and Markup You can easily purchase all-cotton T-shirts for a unit price of $3.00 Equipment, ink, and your time to screen them will add perhaps another $2.50 Marketing costs (mostly flyers and a couple of shirts given away) $0.50 If you then sell the shirts for $20.00 You have a markup of $20.00 – 6.00 = $14.00 Your markup as a percentage is the markup $14.00/6.00 divided by the cost: or 233 percent Your margin on sales of the markup $14.00/20.00 divided by the sales price: or 70 percent The method shown in Exhibit 11.1 is an example of what is called markup pricing and is probably the most widely used of the many pricing methods out there. Knowing your costs and the markup—what you would like (or need) to make from each sale—gets to the fundamentals of pricing and relating prices to your business. The computations also tell you what your margin of profit is, and that number is one asked by bankers and is one of the numbers you can often find in industry statistics, so it is a good number to know. Page 376 But when you apply the markup model and then figure out what your daily sales would need to be, you may need to refigure. If selling 3 $20 T-shirts an hour sounds like a difficult-to-achieve goal, one possible way to increase sales is to drop the price, figuring the less expensive the T-shirt, the more people will be willing to buy them. If you drop the price to $10, you might think that more people will be willing to buy them. But at $10 each, you will need to sell 55 T-shirts a day or nearly 7 per hour. If the idea of dropping the price to increase sales makes sense to you, congratulations! You understand what the economists call price elasticity. Something that is essential to how you live and does not have many substitutes or alternatives is called an inelastic product. Housing, basic food, basic clothing, basic transportation, and utilities are examples. The T-shirts you are planning to sell go beyond basic clothing and fall into the category of an elastic product, which has a lot of substitutes—cheaper T-shirts, used T-shirts, other types of shirts, shirts hidden deep in your closet, and so on. Economists have figured out that when you increase the price for an inelastic product, people might cut back, but only a little. Think about what happens to your driving when gas prices go up sharply—you cut back on your driving as much as you can, but you are stuck buying that high-priced gas. When you cut back on an elastic product, like your T-shirt, people buy a lot less. You might buy one T-shirt a month at $10

each, but at $20 you might not be willing to buy it at all, or if you are willing you will probably want to save up to buy it. The difference in elasticity is why in bad times you see clothing stores close down more often than you see gas stations close. Figure 11.1 shows the difference in elasticity for your elastic product of T-shirts and for the inelastic product of gasoline. The difference in the slopes of the lines can help you think about the impact of dropping or raising the price. Remember to keep in mind how the general economy is affecting your customers. If money is tight, they will respond to price increases for elastic products much more negatively because that is where their needs are more flexible, or elastic. • Gasoline is a product with almost no substitutes. If you need to drive, you need gas, no matter how high the price. That makes gasoline an inelastic product. Even when expensive, you will buy it. Roberto Westbrook/Spaces Images/Blend Images LLC You've heard about the law of supply and demand and this is where it applies in business. When the supply of a product or service is generally enough to meet the customer demand for it, the price is stable and, over the long term, pretty average. If the supply suddenly shrinks (e.g., imports of basic T-shirts you sell in your business dry up because of a trade embargo, a typhoon, or any other reason), the prices go up. If demand suddenly grows (everyone wants to wear a red T-shirt on Monday to show support for the hometown team), the prices are likely to go up. While there is an ethical (and sometimes a legal) issue in charging too much in such situations—what is called price gouging—having a reasonable increase is expected. Figuring out what is "reasonable" is a case of looking at what your competitors are doing, considering what you feel is ethically right, and being ready to adjust your prices as you gain insight into the situation. FIGURE 11.1Pricing Elasticity Page 377 So as an entrepreneur, you can adjust your prices based on supply and demand, but you also need to keep an eye on the competition. As we noted earlier, if a liter of Coke costs a dollar in the store, few are likely to pay $2 for a liter of Pepsi in the store. But as an entrepreneur you have the potential to make choices that may justify a $2 price, for example, selling ice-cold liters of Pepsi on the street corner across from the baseball stadium on the afternoon of a game. Demand will be up because of the heat, and your $2 price might still look like a good value compared to soda prices inside the stadium. As you can see, being an economic theory and not a law of nature, the predictive power of elasticity and the law of supply and demand can get watered down by a host of possible factors. Coke and Pepsi are brands people know about so they know what they are buying when they get a liter. T-shirts, however, are another matter. If you begin selling T-shirts for $20 and you don't get enough sales, you might want to see what happens when you drop the price of the T-shirts from $20 to $10. Sales may go up because of the lower price, but it is also possible that some customers will assume that you have started compromising on quality (maybe getting cheaper T-shirts on which to put your designs). Taking the price of the shirt as an indicator of quality, they may decide to buy fewer shirts at $10 than at $20. That means to make

elasticity work, you need to also keep in mind the value people see in your product. Let's look at how that gets figured into pricing.  The Fundamentals of Pricing: Value Elasticity is an important indicator, but it is not the only one you ought to consider. T-shirts and gasoline are products that almost everyone buys, and whose sales result in a lot of competition and price pressure. However, there are other markets and products for which people will pay extra. Remember in Chapter 7 we talked about value and cost benefits. Those value benefits now come back into play as you think about price. We know that people will pay more for a product of high quality or high stylishness or leading-edge technology. That is why we all know that an iPhone typically costs more than the competing Android phone. But small businesses can offer products with the same sort of appeal.  Let's consider the example of Screaming Eagle wines from Napa Valley, California. This small business follows a strategy of deliberately remaining a limited producer of fine wines. The demand for high-end wines is so high that the winery sells solely by subscription. Even at $850 per bottle for newly released vintages, there is a waiting list of people wanting to be placed on the customer subscription list. There certainly is no pressure for the winery to reduce prices, as it currently sells its entire output before it is even bottled. In fact, there is pretty good evidence that Screaming Eagle could increase the winery price substantially and still sell its entire 600- to 850-case output before it is released. You need only do a Google search for "Screaming Eagle wine" to see that there is a very vigorous secondary resale demand. You will find individual bottles of older vintages of the wine priced over $5,000.3 Page 378  • Screaming Eagle sells its wines for $850 a bottle and sells all its wine before it is even bottled. How do you think it can do such a great job of convincing customers to pay a superpremium price?  Source: Screaming Eagle  The value delivered to the customer is second in order of importance to the pricing decision. How can a boutique winery like Screaming Eagle charge $850 for a bottle of wine?4 The answer is that the price customers are willing to pay is determined by their perception of value received. From the consumer's point of view, top-flight vintners are selling much more than a mere bottle of fine wine. They are also selling exclusivity. Only a few, very rich people can buy Screaming Eagle directly from the winery, and they can buy it if, and only if, they have been accepted to the subscription list. Also consider: "Would the wine have the very high demand that it currently enjoys if it were priced at a more 'reasonable' rate, say $50 per bottle?" Certainly it would not. The extravagant price is actually part of what creates and maintains the high demand.  In addition to demand and value provided, you must consider the prices set by your competition.5 It is often tempting to set your price lower than that of your competitor in the hope that you can pull away some of her customers. This is often self-defeating for two reasons. First, if you lower your price, your revenue will decline as a percentage of your total sales. Often, the increase in sales is insufficient to make up for the lost revenue. Second, if your strategy works, it will not be long before your competitor realizes the drop in

sales and lowers prices to meet yours. You both end up with lower prices, and no more volume than before the price cut. The issues of deliberately lowering prices for strategic reasons are discussed in detail later in this chapter. The opposing temptation is to set your prices higher than that of your competition. For wines, the First Growth (Grand Cru) wines of Bordeaux actually sell for even more than $850, so why not raise the price of Screaming Eagle? For that matter, bottles of Screaming Eagle wine sell for more than $2,000 on wine-searcher.com all the time. The problem with this reasoning is that it is backward: it is considering the firm's competitive position from only the owner's point of view. A much better approach would be to determine what features your customers are actually willing to pay for. Setting prices higher than the competition without providing customers with the perception of receiving greater value can only lead to lower overall volume. For Screaming Eagle's connoisseur customers, a Grand Cru is an even better wine, so it should cost more. Someday Screaming Eagle may have the vintage that makes the breakthrough in the world of wines, matching Bordeaux's best, and it is then it could safely raise its prices and keep its customers happy. With the lesson of Screaming Eagle wines in mind, go back to the list of value benefits in Chapter 7 and ask yourself if there is a way to tap into them to make a case for higher price. For the T-shirts, having designs by a known local artist or band or offbeat designs featuring local schools could make it work. If you work it right, value benefits can turn into higher prices for your products. The Fundamentals of Pricing: Contextual Factors6 The discussion up to here has covered why pricing is so important and the major factors that determine prices. Issues of the effects of demand and value on pricing were analyzed. All this is necessary information for you to be able to set prices. However, it does not explain the "nuts and bolts" of how to use the information to actually set a price. Of course, one reason that this discussion is necessarily general and not specific is that the details of determining the "right" price differ among industries and businesses. Still, some practices are valid across industries. As we've said, your first task must be to decide what is the optimum price. This can be a very different number among similar businesses, depending on specific business goals. If you are operating profitably near your business's maximum capacity, the right price is most likely the one that maximizes the probability of a sale without leaving money on the table. For example, if your restaurant and bar is the "in" place to be, and you cannot even begin to handle those Friday and Saturday night crowds, you just might want to impose a cover charge. Or if your business is the patent holder of a biopharmaceutical that will grow hair on bald men's pates, you will initially set the price so high that only a few can afford it. Then, as the patent approaches its termination, you will lower the price to capture the maximum market and to establish a barrier to the entry of generic manufacturers.7 Page 379 If you are operating below capacity, the right price might be one that is low enough to fill your production capacity and keep your key employees working. If you could throw a bowling ball through

your restaurant without hitting anyone on a Friday night, you will want to consider $10 pitchers of margaritas, or perhaps (if local regulation allows) a “ladies drink free.” If you are trying to make your business grow, or if you are at the point that you are preparing to exit your business, the right price is the one necessary to capture a desired market share or to meet a specific profit target, given an anticipated level of sales volume. Once you have decided what your pricing goals are, the next logical step is to examine the existing market prices for similar products and services. You should also make a comparison list of the similarities and differences among your competitors’ offerings. We’ve gone through examples such as distinctive competence maps (Skill Module 7.4), coordinating your distinctive competence with your value proposition (Skill Module 9.7), or the idea comparison matrix shown in Exhibit 9.1 (replace only “Idea 1” with your offering, and the other ideas with your competitors’ offering). If at all possible, you should attempt to determine which features of your competitors’ products and services are actually desired by customers. This process will provide you with a range of prices and features to which you can compare your own product. Now is the time to consider your business costs. The question that you must answer is, “Can I make a profit at the price that will meet sales volume goals?” If the answer is yes, you have established an acceptable base price. From this price, you can then experiment a bit. You probably should start by deliberately setting your price above the acceptable base. Too often start-ups price themselves too low, which doesn’t account for the mistakes and learning that will take place at the business’s start, and keeps the potential profits too low. The kindhearted buyer in the following Small Business Insight is not the kind of customer you can depend on to let you know you’ve priced too low. Most customers will just buy you out of your product or service and let you find out you’re not going to make a profit for all the business you’ve done. SMALL BUSINESS INSIGHT Blue Water Boatworks Blue Water Boatworks was started by Saint Louis University student JP Keating. It provided boat cleaning and detailing services to individuals, marinas, and boat dealers. An issue arose for the company when one of the biggest boat dealers negotiated a price for detailing dozens of boats in preparation for a boat show. With Blue Water in its start-up phase, JP was overjoyed to get the contract, and set a price based on his costs of materials and time. Being a student, he didn’t think his time was worth that much. He set the cost at $100 for a 15-foot boat, and adjusted it as boat length became longer. The boat dealer figured that it cost him almost $300 to detail the 15-footer in his organization. A part of him wanted to in lock JP for a long-term contract to get a great deal. But the dealer also realized he would be taking advantage of JP, and once JP realized he had massively underpriced his service, he would not be a willing contractor. The dealer called JP over to the office and showed him what it really cost to detail a boat. He worked with JP to come up with a more realistic price, one that would help JP stay motivated and grow his business. In the business plan, JP set the price at $350. He

felt he could charge more than the in-house cost because as a specialist, he could do a better job. In addition, he offered boat owners convenience, doing the detailing on the owner's schedule. For the boat dealer, this meant being able to do two things at once—a real help as the big boat show approached. He was glad to pay the $350, but JP gave him a discount price of $300 out of respect for the dealer's honesty and help. JP was lucky to find such an ethical first customer. But from then on, he always worked through the mechanics of setting his prices before talking to customers. Page 380 If your initial price needs to be adjusted, you will face much less customer dissatisfaction if your response is to lower your price rather than to raise it. If the answer is no, however, you are going to have to consider how you can lower your costs to the point that you can make a profit at the price that you have determined to be the "right" one. Your Company Objectives8 For most small businesses, the early years are survival years and the tendency is to sell your product for whatever you can get for it. Sure, you'd like $5,000 per desk, but if someone offers you $3,000, well, at least it'll help you to meet this week's payroll. While it may be a fact of life at certain times, it shouldn't be your firm's pricing objective. More commonly, firms set prices to maximize profits or to increase market share. Increasing market share usually means pricing toward the low end of the competition in order to take market share from the competition. This strategy becomes more popular as a product reaches the maturity phase of the product life cycle. However, this shouldn't be an objective for a small business for several reasons.9 Bigger, better-established companies have deep pockets, and often more geographic diversity, and larger product lines than you do. They can match or undercut your price in a heartbeat—even sell below cost because they're supported by sales of other products or in other regions.10 Another reason why a small firm shouldn't try to compete on price is that it probably won't be working at full capacity for some time. Your building rent is the same whether you are producing at top speed or working only a few hours a week. If you cut your prices too low, you won't be able to cover costs during your nonproductive times. When you are up to full speed, you could drop your prices, or you might find other ways to please your customers, such as including free delivery or other services, and leave your price alone.11 Maximizing profits is a much better option for the small firm. This doesn't mean that you need to have the most expensive product out there unless you're worth it, but it does mean that your price should be above the average price.12 First, this simply adds to your profit. If your business is profitable, a one dollar increase in price will add one dollar to profit. Second, as a small business you do not have the volume of sales that would allow profitable operation with low margins. Studies have also shown that companies that compete on product innovation and high quality achieve higher growth than those that try to compete on price. Firms that compete on price even tend to experience negative growth.13 Another study of 1,000 firms shows that a 1 percent price increase converted to a 12 percent increase in profitability, all else being the same.14

There are times and places to compete on price, but exhaust all other strategies first. One more example: J. David Allen, director of a large entrepreneurship center, once owned a company that sold dominoes. He barely sold any at $3 per box. Then he added a design for the Texas Sesquicentennial and couldn't keep them on the shelf at $19.95.15 The product cost roughly the same—adding the design had minimal impact—but look at the difference in the profit. Be different, be better, but don't be too cheap. And remember: It's always easier to lower prices than it is to raise them.16 Marketing Strategy Your price must be consistent with the rest of your marketing strategy. If you are advertising high quality or prestige but price your product lower than the competition, your customers will be confused at best, or at worst simply not believe your ads. If you're trying to get into Walmart, you don't want to have Rodeo Drive prices. If you package in a plain cardboard box, you're hinting at a different price point from a silk-lined, leather case. If you are making custom desks, they had better be higher priced than the pressed board, assemble-it-yourself ones you find at the discount stores. Consistency is key. Channels of Distribution Everyone who handles your product will be expecting to make something from it. If you are using a traditional retailer, your product may go through several intermediaries (see the "Distribution" section of this chapter for more information) before getting on the shelf. The end price to your customer might be four times from what you got. This is called price escalation. You need to make sure that once all those involved get their cut, your product is still priced correctly to reach your target market. If the distribution costs price you out of the market, you may want to sell direct. Page 381 Competition We've talked a bit about pricing in relation to your competition, but you can't just look at the competition's price ranges and pick something at, oh, about 75 percent of maximum. Just as yours is, your competitors' products are a "bundle of satisfactions." How do their product bundles match up to yours? You may make athletic shoes just as good as Nike's, but you don't provide the prestige of the Nike logo (at least not when you're new). What other "extras" do customers get from your competition—additional service, brand recognition, prestige, bragging rights, comfort of knowing a big company will back up the product, and others? These intangible things are hard to price, but you need to think about how your product or service matches up to theirs.17 Dan and Russell Schlueter sell pet products, including Ultra Pearls and Crystal Clear Litter Pearls. This cat litter offers a significant benefit over ordinary litters. About 4 pounds of the Schlueters' product lasts as long as 28 pounds of other litters. When competing brands sold 14-pound bags for $6 to $7, the Schlueters priced their 4-pound bag at $14 to $16. Their 4-pound bag lasts a month—the same as two bags of the other litter. Still, they're at a premium to the competition. Which would you rather carry from the store—28 pounds of the old stuff or 4 pounds of Ultra Pearls? Add some awards from Cat Fancy magazine and PetSmart Outstanding Technology Achievement Award and in less than five years their company has become a $10 million plus business.18 • Ultra Pearls,

sold by Dan and Russell Schlueter, offers the ultimate in cat litter control. How does the Schlueter pricing strategy reinforce the product's known benefits? Mark Dierker/McGraw-Hill Education Legal and Regulatory Issues There's a plethora of items that can fall under legal and regulatory issues. There are laws, for example, against price fixing and other collusion among competitors. The government sometimes establishes "acceptable" prices or price minimums or maximums—especially if you are selling to the government. Some forms of price discrimination are illegal.19 It's OK to lower your prices during happy hour (effectively discriminating against those who work during that time period), but you can't charge different prices to customers of different races. You can offer a senior citizen's discount, but you can't charge a "skinny person" premium. In most states you must collect sales tax for retail purchases. Usually, however, you are not required to do so for mail order and Internet sales. Sometimes there are special taxes or fees that must be collected, such as deposits or hazardous waste handling fees. Talk to your accountant and your attorney about specific rules pertaining to your product or service.20 The Pricing Toolbox 11-2 Recognize the different pricing strategies that could apply to your product or service. You should now know what influences the setting of prices based on your magic number, your costs, the value you can offer, the elasticities of the market, and the contextual factors from your business environment. You should have a basic idea of your costs and needs, but there is still one key group that needs to be considered—your customers. For most people, their reaction to the prices they see is as much about their own perceptions and psychology as about the major market forces. In this section we provide you with the tools to make that final pricing decision, adding to the mix the customer's psychology and the myriad of techniques that can help you couch a price in just the right way to appeal to your intended customer. Then we will give you practical examples of how pricing works when selling a product and a service. Pricing Psychology: How Customers Perceive Prices When you shop for products, you look at a price and make a judgment as to whether this is a fair price or too low or too high. Where you shop and under what circumstances you shop can also influence this judgment. We expect different prices at different places. We expect to pay more for emergency plumbing repairs or for certain conveniences. If your needs change, your willingness to pay changes. A submarine sandwich has little value to you if you have just completed a five-course meal, but if you haven't eaten in two days, you might pay almost anything for it (even though it is exactly the same sandwich). Page 382 Consumers have what are known as internal and external reference prices. Basically these are expectations about what a price should be, based on their own knowledge (internal reference pricing) or from gathering information from outside sources (external reference pricing). External reference prices may come from looking at competitive ads, researching on the Internet, visiting several stores, or asking friends. Consumers will also pick up on external clues. If the product is sold at Walmart, they will expect to pay less than if it's sold

at an upscale department store (expectations based on where it is bought). A Rolex watch sold by a street vendor in Beijing should cost less than a Rolex at Tiffany's in New York City (expectations based on perception of the likely quality and authenticity). You'd expect lower prices at a "going out of business" sale than at a "back to school" sale (perception of motivation of the seller—how eager he or she is to sell). Consumers' internal reference price may be based on the last time they purchased something, recollections of what they might have read or heard in the past, their understanding of how much it would cost to make it (it's made in China, so it should be inexpensive; it's gold-plated, so it'll cost more), or their perception of the value the product has. If the last time you went to the movies you paid $4 for a ticket and today you find out it costs $10, you might just wait for the video to come out. (You're forgetting that the last time you went to the movies was 10 years ago.) Perception of value varies from person to person. For example, if you can clean your apartment in two hours and figure your time is worth $10 an hour, you won't want to pay someone else $30 to do it for you. On the other hand, if it takes you four hours or if you figure your time is worth $20 per hour, then $30 sounds like a good deal. It doesn't need to be purely financially motivated either. If you find cleaning relaxing and a break from your regular job while other people rank it as their absolute least favorite thing to do, they are willing to pay something while you may be willing to pay nothing at all. Skills may be involved: Some people might be able to figure their taxes themselves; others may find any math involving more than three digits beyond their capabilities. Expectations of future prices may be internal or external. The newspaper says interest rates are going up; consumers may decide to pay a bit more to get their new house now while rates are low. You're going to the Bahamas next November; you'll wait for the end-of-the-season sales to buy your vacation clothes because you remember end-of-the-season sales from past experience. Consumers also have a price range of acceptability. Any price within this range is really OK with them. How wide the range is varies by product, by consumer, and by situation. This price range of acceptability tends to be the inelastic parts—the "sticky" parts—of the elasticity curves. Setting a price somewhat above the competitive midpoint has a psychological impact on buyers.21 If three sweaters appear to be identical but are priced at $30, $40, and $50, you are likely to feel that the more expensive one is of higher quality.22 You can explore this in Skill Module 11.1. SKILL MODULE 11.1 Pricing Psychology Customers often view pricing as a proxy for quality, especially when it is difficult for them to truly evaluate the products: Tell your friends that you are conducting a taste test and provide three samples of the same product in containers marked A, B, and C. (Choose products for which brands are not easily visually detected, such as pasta, soft drinks, etc.) Predetermine three price points: one that is about average for the product, one that is relatively high compared to the competition, and one that would reflect the "discount" brand price. As your friends sample each of the three, give them some data

about the product. Include exactly the same data about each—in a different order—except for the suggested retail price. (For example, soft drink A might be sugar-free, vitamin-fortified, cola-based, only 1 calorie, manufactured in the United States, and available locally for 50 cents. Sample B sells for 75 cents and is cola-based, and is manufactured in the United States as well. It has only 1 calorie and is sugar-free and vitamin-fortified. Sample C is an American, cola-based, vitamin-fortified soft drink with no calories. It retails for $1 and is sugar-free as well.) Allow your friends to taste each product once, and do not permit them to go back and resample. Between samples, provide a sip of water or a cracker to remove any lingering taste—anything to separate the three samples slightly. After tasting all three, ask them to discuss each one, stating what they did or did not like about the product. If done in a classroom setting, provide a score sheet for each student to rate the product. Often you will find that the more expensive product's characteristics are rated higher. Note: This test often works with similar results on other "quality indicators" such as the store where something is purchased (the item bought at Walmart versus an upscale department store) or the country of origin (products from a country with a good reputation versus a less-developed country; for example, wine from France or Bulgaria). How you define your product determines your competitive advantage and affects your price. When you get right down to it, there are only two competitive advantages: your product or service must be better (quality, features, distribution, etc.) or cheaper. Being better is sustainable, but someone else can always match or beat your price.23 Customers who are attracted to low prices will not be loyal and will switch as soon as something cheaper comes along.24 Customers will always pay more for a product or service that stands out from the crowd. Treehouse Cuts Salons is a children's hair salon that has chairs designed as Barbie jeeps and other kid-friendly items such as televisions or Sony PlayStations at each chair. The salon charges about 30 percent more than the competition, but parents are willing to spend the money to make their child's haircutting experience more pleasant.25 Consumers perceive Treehouse Cuts as a better value—regardless of the actual price. Pricing Strategies26 Page 383 We have discussed all the "externalities" that can affect your price. These set the limits for what you are able to do with your pricing strategies. For example, if the government has set a price maximum, you may not be able to use a skimming or premium price strategy—strategies that mean setting prices relatively high compared to the competition. If you have determined that the price range of acceptability for a large pizza is between $8 and $15 and your costs determine that you need to charge $20, then the premium pricing route—with creating the correct mind-set through other parts of the marketing mix—is almost imperative. To reiterate, it's almost always a bad idea for a small firm to try to compete on price. Competing on price may lead to a price war in which you just don't have the staying power of a big firm. Lower prices are "throwing away" profit you really need. They can signal your customers that your product isn't as high quality

as your competitors'. There are, however, plenty of strategies available to small businesses that you can use as successfully as the larger firms.27  Skimming28 Skimming is charging the highest price the market will bear. This technique is usually possible only if you are absolutely the first product or service of your type in the market, and only if it's something people really want. Companies sometimes use this strategy in order to recoup research and development costs or heavy marketing expenses. If your product or service is truly innovative and at the beginning of the product life cycle (little or no competition)—for instance, 8K television—and if you can convince customers to try it through effective advertising, then skimming may be an option. This method will attract competition, so it's not a long-term strategy.  Prestige or Premium Pricing29 Page 384  Just as setting your prices low signals low quality, having a high price can signal great quality and an item that is prestigious to own.30 When a consumer has difficulty assessing the quality of the item—for example, the first time he or she purchases a product in that category—price is used as a proxy for quality. Similarly with prestige. Consider average computer buyers: Do they really understand RAM and ROM and gigabytes and all those other terms or do they have the vague impression that "bigger is better"? The same goes for the price; that more expensive computer just has to be better than the less expensive, no-name brand. (If you needed a root canal, would you rather go to a dentist who says it'll cost several hundred dollars or one who states he or she can do it for $49?) Certainly most everyone would agree that a Toyota Corolla is a good-quality automobile, but if you ask people what kind of car they aspire to own, you'll hear Jaguar, BMW, Mercedes. It's a prestige thing determined partly by a higher price tag.  Generally prestige pricing is for an item considered a status symbol, such as a Rolex watch, a Mercedes automobile, or the Remy Martin cognac shown inFigure 11.2. Premium pricing is used for nonstatus symbol types of products, such as toothpaste, shampoo, or laundry detergent, as in the example of Tide presenting itself as a premium-priced detergent in Figure 11.2. The general idea behind both approaches is the same.  FIGURE 11.2Prestige/Premium Pricing Ad34  Image Courtesy of The Advertising Archives; Procter & Gamble  A few warnings. If you are going to go for the high-end market, remember what we say about marketing mix consistency: Make sure your product, packaging, advertising, and distribution—in short, everything—match your price. If your product or service quality isn't appropriate, you'll not only fail to get a second chance, but you'll also generate a lot of bad word of mouth as well. And you may not want to be the very highest out there; a Lamborghini and a Jaguar are both prestigious cars, but the Jaguar market is much larger.  Odd-Even Pricing31 Odd-even pricing simply means setting a price that ends with a 9, 7, or 5. For example, don't charge $100; charge $99.99 (or $99.97 or $99.95). Numbers that are multiples of 10 are a psychological hurdle for consumers. Therefore, $9.99 seems much cheaper than $10, and the difference between $9.99 and $10 feels greater than the difference between $9.99 and $9.98. Consumers will set price limits

in their minds; they'll want to spend under $1,000 for a new computer. They may spend $999, before taxes and other extras are added on, and they'll feel that they've succeeded in meeting their budget—and will brag to their friends that they were able to buy "all this for under a grand."32 Does odd-even pricing work? A recent study showed that when an identical dress was priced at $34, $39, and $44, a third more dresses were sold at $39 than at either of the other two prices.33 Page 385 Partitioned Pricing Partitioned pricing is alluded to in the previous computer example—setting a base price and charging extra for all other components. You set the price for the main component—a computer for $999—but just about everything else you need is extra. You need a printer? That's another $100. How about cables to connect the printer to the computer? That's $29.95. Did you realize you could increase your computer's memory, add a read/write CD burner, or a DVD player? They cost more, of course. Extended warranty? $79.95. Don't you want to scan photos, add a digital camera, and upgrade to a flat-screen monitor? What about some ink cartridges for that new printer? And several different kinds of paper? Don't forget to check out our excellent selection of software on your way up to the checkout. That $999 computer may end up costing twice that much (or more) before the consumer gets out the door. Partitioned pricing works because once consumers make a decision that a certain product is the one they want, they are very reluctant to change their mind. It's sort of like saying that they made a bad decision or decided too quickly. They don't want to look stupid or cheap or settle for something less than they really "deserve." A number of products are sold that way: shipping, extended warranties, installation, training, additional services, and the like are not often included in the final price. Captive Pricing For certain products and services, captive pricing works well. In captive pricing, you sell something, usually a base system, at a relatively low price, but the expendables it uses are relatively expensive. Computer printers are usually priced low for the technology—sometimes even thrown in for free when you buy a computer—but the cost of the replacement ink cartridges is high. By the time you purchase three or four, you've spent more money for them than the price of the printer. For services, something you can offer a low price for, such as first-time membership to a health club, can be a candidate for captive pricing. Any extra classes, sauna, massage, and the like can be higher priced and more profitable. Although it's true that customers could get a massage elsewhere, they have already purchased this membership and it's convenient. The whole freemium approach, which has been mentioned earlier in the text, is a model of captive pricing often used in the app business. Price Lining Price lining is an attempt to appeal to several different markets. In this situation, you might have three models of your product or service price to appeal to the high-, mid-, and low-end market. You might have a computer with all the bells and whistles priced at or near the top of the competitive price range, a bare-bones, stripped-down version priced at or near the bottom, and a third model at a midrange price with midrange features. This way you appeal to customers with

different budgets and different needs. Even if it's a product without a lot of features to add or remove, price lining can work. Next time you are at the store, find all the Procter & Gamble or Unilever products in the shampoo or laundry detergent aisle; they'll have products at every price point with different brand names. For example, Unilever manufactures both Suave hair care products at the low price end and Tresemmé products at the high price end. Procter & Gamble has Gain (low price) and Cheer (high price) laundry detergents.  Price-Lowering Techniques35 Even though all-out price competition is not usually the best strategy for smaller businesses, there are times when a company needs to reduce its prices in order to attract more business, smooth service cycles, build loyalty, move excess inventories, alleviate temporary cash flow problems, and the like. Sale is a powerful term. A recent study shows that even just the word sale can drive up demand by 50 percent without any actual price change.36 The following techniques generally can be used without starting price wars or reducing the quality perception of your product or service. The complete list is given in Table 11.1. Some of the less obvious techniques get a bit more coverage next.  TABLE 11.1 Pricing StrategiesTable Summary: Table on the top is divided into three columns shows various techniques for increasing product demand with corresponding examples. The column headers are marked from left to right as: pricing technique; description; and example. Table at the bottom is divided into three columns shows methods for advertising products. The column headers are marked from left to right as: pricing technique; description; and example. Pricing Technique Description Example Secondary market pricing One price for the primary market and a different one for secondary markets. Computer priced at $2,000 for U.S. business markets and at $1,500 in Mexico. Periodic discounting Patterned or systematic price reduction. Holiday sale, back-to-school sale. Random discounting Nonsystematic price reduction. Sales without a discernable pattern. Price skimming Charging the absolute highest possible price due to inelastic demand. Prices of plasma televisions. Off-peak pricing Lower prices during off-peak periods in order to even out purchases. Happy hours or late-night specials at restaurants. Loss leaders Selling a name brand at or near cost in order to attract traffic to a retailer. Target selling Pampers at cost and locating them at the back of the store, hoping a customer might pick up other items while in the store. Price discrimination Charging different prices to different groups, usually to attract a different demographic. Senior citizens' discounts. Penetration pricing Setting a low price in order to get market share. A later entrant into the market may set prices below all competition in order to steal market share. Limit pricing Extremely low penetration price to discourage competitors from entering a market. Instead of skimming, the first on the market may price just above cost until it feels the competition has given up on the market. Price signaling Setting a high price on a product in order to imply high quality or similar quality to a competitor. If I set my price the same as Levi's jeans, people will assume they are the same quality. Going rate At or

near industry average. Competitors price from $5.00 to $10.00 and your price is $7.50. Captive pricing Selling one item at a very low price (even below cost) when there are necessary supplies that you can sell for a high price. Low-price ink-jet printers, but high-priced replacement ink cartridges. Bait pricing Advertising an inexpensive product and placing it near better, more expensive models. The idea is to get the consumer to buy up. Sometimes the product will be intentionally ugly—unpopular color, etc. The ad shows a $300 computer, but to see it you have to walk by all the other computers that have many more features, better quality, etc. Reference pricing Two similar products displayed side-by-side in ad or at the store but at different prices. Implies the same product but at a better price. Walmart brand aspirin next to Bayer, but at half the price. Everyday low price Implying that the price stated is always low and it's always a good deal. The Walmart strategy; even when its prices are higher than the competition's, the consumers feel that they are not. Odd-even pricing Ending a price with a 9, 7, or 5. A book that is $69.99. Customary pricing Prices based on tradition; it's very difficult to raise above this limit. Penny gumball machines, 50-cent candy bars. Prestige/premium pricing Setting a high price to imply that this product is a status symbol and/or of much better quality than others. Pricing of luxury cars, the best perfumes. Professional pricing Fees set by doctors, lawyers, and other similar professionals that tend to be uniform in a geographic region. Lasik eye surgery runs between $1,000 and $3,000 at most eye doctors. Product line pricing Selling products at different price points to attract the low-, mid-, and high-end customers. Marriott hotels are high priced, but the Marriott Courtyards are moderately priced. Bundling/bonus pack/multipack Putting two or more of the same or different products or services together and selling for a price somewhat under the products' individual prices. An oil change is $49 and tire rotation is $69, but if you do them both, it will cost only $99. Partitioned pricing Pricing each piece separately; the consumer gets "hooked" on the core component and then pays extra for everything else needed. The computer is only $699, but the printer is another $100 and cables are $30 and the modem is. . . . Coupons/rebates Temporary price-reduction strategies. This coupon is worth $1 off the next visit. Loyalty programs A reward given to repeat customers. Buy nine sandwiches and the tenth one is free. Referral discounts A reward to customers who encourage others to buy from you. If one of your friends signs up at our health club, you'll get one month free. Page 387  Periodic and Random Discounting Periodic discounting refers to sales that happen regularly, such as the January White Sale or the special on Christmas cards on December 26. You may need to do one of these to keep up with your competition, since savvy customers often expect these sales. An alternative is random discounting where you run a sale unexpectedly. Random discounts shouldn't be too frequent because consumers begin to realize if they stock up in this sales period, they can probably wait until the next sales period.  Off-Peak Pricing Where does happy hour drink pricing fall in all of these techniques? It is an example of off-

peak pricing. Services have busy periods and slow periods. Restaurants give wait staff split shifts with time off between lunch and dinner, but not every service can do this. By putting on a sale during slack periods, you may cover part of the cost of staying open. Happy hours are designed to attract business in the late afternoon slump just before the dinner crowd arrives. The reverse of this is peak pricing. Hotels charge more during their busy tourist season for example. Movie tickets also cost more on weekends. When demand is higher, people are less concerned about paying a premium to get the service when they want it. Bundling or Multiple-Packs or Bonus-Packs Pricing This works equally well for services or products. Let's say a haircut is $25 and coloring is $50. For this week, if you do both you'll pay only $60. The beauty salon has "bundled" haircuts and coloring for a price lower than the two would cost separately.37 This technique is particularly effective for promoting the sales of a second product or service that might not be doing as well or is newly introduced. This can also be a way to increase sales when reversed, as in the example of unbundling products, which is one of the ways to increase sales when retaining customers in the customer development funnel of Blank and Dorf. A variation of this is selling multiple or bonus packs, such as buying five bottles of hand lotion for the price of three—the kind of packaging that has made Sam's Club so famous. People are creatures of habit, and the more you can get them to use your product, the more likely they are to internalize it—it becomes their brand. Pricing in Practice Price setting is one of the more complex decisions an entrepreneur faces. It certainly is one of the most studied, and it is one of the most crucial. So let's look at how entrepreneurs use these materials and their own judgment in setting prices. We saw one example previously in the chapter with our T-shirt entrepreneur. We will return to that example of selling something tangible and also include an example for a service. Page 388 Pricing T-Shirts In Exhibit 11.1 we saw our T-shirt entrepreneur—let's call her Janeen—pick a price of $20 a shirt for online and in-person sales. Janeen's quick check of the Internet showed her that a lot of designed T-shirts are in the $15 to $20 range, and a check of local stores showed a range from $15 to about $25. Taken together, this gave her some confidence in her $20 price. To finalize her price and make it more attractive, she applied the technique of odd-even pricing to price her T-shirts at $19.99, and then, exercising her entrepreneurial judgment, dropped the price further to $19.89. This had the benefit of odd-even pricing, seemed just a little less expensive than the competition, and would fit with some of her plans for future shirts and branding efforts. Janeen thought 1989 was a good year for what she felt was important: world changes that promoted freedom, like the Solidarity movement getting elected in Poland, apartheid starting to be dismantled in South Africa, Israel and the PLO starting their talks, and the first Chinese youth promoting freedom taking to the streets. She is toying with the name "1989 Tees" or "89 Tees" since the domain names are available, and it would reflect some of what makes her T-shirts special. She is also looking for opportunities to build her brand using

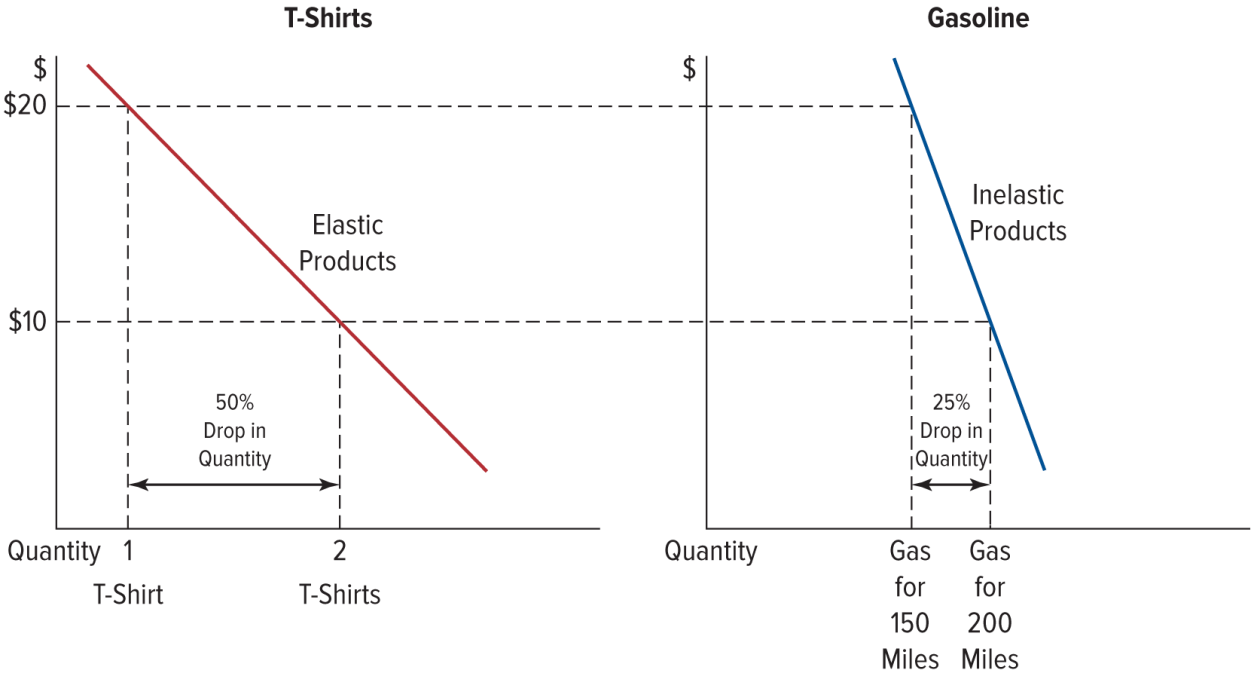
price. She hopes to connect with a local band and sell T-shirts with the band's logo. She realizes that means the band will get a cut, and some online research and discussion with friends in the local music scene tell her their share would be about $2 to $3 per shirt, with part paid up front, which she can't afford right now. On the other hand, if she gets the deal and can sell at the band's local shows, she can sell the $20 tees for $24.89 or even $29.89, with $1 a shirt going to the owner of the local venue and another dollar going to the band itself. She is also thinking about when to offer a sale, like when she opens up, or for a week early in the Christmas season to grab shoppers early. For those sales, she will be aiming for $17.89 (the year George Washington takes office, first Congress convenes, France gets rid of feudalism) and if she is closing out a shirt, $9.89, even though she cannot think of anything freedom-related in that year.  Pricing Web Design Services Antonio has designed websites for friends and students starting businesses from their dorm rooms, but now that he's graduating, Antonio wants to make web design his business. He found a calculator for helping him set rates38 and went through the computations. Central to this was the belief that starting out, he would be able to sell only half of his available hours, with the rest taken up with business upkeep, and for a start-up marketing the business to drum up sales. After figuring out his own needs (rent, food, insurance, etc.) and his business expenses, he came up with a breakeven rate of $45.21 an hour, but if he wanted to make a target $20,000 profit for the year, he would need to charge $66.49 an hour. The summary of his computations are included in Exhibit 11.2. His first thought was to drop his hoped-for profit down to $10,000 for the year, which brought his target rate to $55.85 an hour, which Antonio rounded up to $60 an hour.  EXHIBIT 11.2Computing Hourly Rates  Business costs $11,500 Personal costs $31,000 Desired profit/year $20,000 Target income $62,500 Billable hours/year 940 (235 days × 8 hours/day × 50% unbillable hours) Breakeven hourly rate $45.21 (Business costs + Personal costs/940) Target hourly rate $66.49 ($62,500/940) Page 389  What does this exercise do for him? Antonio now knows the lowest price he can take and cover his costs is $45.21 an hour. He knows that his target hourly rate should be $60 an hour. This computation was the equivalent of what Janeen did in Exhibit 11.1. How do these numbers work when we factor in the real-world issues? Antonio found results online from a 2014 survey of web design prices that ranged from $25 an hour to $350 an hour with an average of $68 an hour.39 If Antonio were starting today, he'd look for the current costs. In addition, when Antonio looked online for local competitors, those who gave rates generally had rates of $70 to $90 an hour, so he thought his numbers were good for now but that he would keep evaluating them.  But web design is sold two ways. One is based on an hourly rate, while the other is based on selling a package of services at a fixed price. Antonio checked online (an online search of "web design calculator") and found several online design quote wizards.40 Antonio built a model package consisting of the items in Exhibit 11.3, which is what he thought a business might want in their first professionally designed website.

EXHIBIT 11.3Antonio's Basic Professional Website Package For the kind of package he thought he could sell locally, the cost range the wizard produced was between $1,423 and $6,934. No local companies posted package rates, so while Antonio did not have a solid basis for estimating how his prices stacked up locally, he also thought he might be able to aggressively market a package price to fill the opening left by his competition. He decided on a package price of $4,500, which put him in the midrange for this type of service. Notice that this works out to $56.25 an hour, which is very close to the hourly rate he computed separately, and which he knows fits with what local competitors are charging. With Antonio's $4,500 package, he has some other options open. He obviously could apply odd-even pricing to make the price $4,499. Another method that fits well is partitioned pricing, adding additional desirable services to the basic package at different price points, like a basic blog for $150, or $750 to add an iPhone or Android app, or a complete e-commerce shopping cart for an additional $2,000. He will also offer different types of postinstallation supports, as well as web server packages so he can be their one-stop for all web needs. Page 390 Antonio was lucky to find a website that goes through the types of work possible and provides estimates of how long each takes, but you need to take those estimates with some skepticism. For example, DesignQuote estimates the time to make a Flash banner is 4 hours, but Antonio has not used Flash very much so he could easily spend 12 hours making his first banner. The best basis is to use your own experience, but when you have to use estimates from others, always treat them as tentative and be quick to adjust your estimates and rates based on your own experience. Some other ways to find out what competitors are charging is to ask their customers. Telling someone you liked their website and asking who did it and for how much can help you get a feel for local costs. But in the end, there is no substitute for building estimated costs from your real-life experience. Taking on jobs for free to build your reputation, to create a portfolio of projects, and to give you a more solid basis for estimating your costs is a good idea to build many service-oriented businesses. Pricing Strategy Wrap-Up Entrepreneurs agonize about price, but perhaps for the wrong reason. Too often owners figure since they run a small business, their prices should be smaller too. But that is highly dangerous. Ellen Rohr, the financial management expert at Entrepreneur magazine, estimates that 99 out of 100 small businesses in financial difficulties have set their prices too low.41 As this chapter has tried to show, it makes more sense to find ways to charge more than to charge less. And when it's all said and done, only 15 to 35 percent of consumers decide on a product using price as the number one factor, depending on the product. In fact, nearly 80 percent cannot accurately recall the price on something they purchased a week ago.42 So, goal number one in pricing is to set the price as high as you think you can, using your competition and customers' responses as a check. If the higher price was working, but has tapered off, consider pursuing goal number two—use the pricing strategies given in Table 11.1 to drive

more sales. Customers recognize sales for what they are, a temporary reduction in price, and these won't tarnish your product image. Even if the competition matches a sale or offers some other promotion to match your offering, it's not as aggressive an action as a price war. Your customers will feel smart about buying something at a better price, and even if your prices are higher than the competition's and you offer a sale that brings you in line with its pricing, customers are still likely to buy from you—all else being equal—and feel they got a great deal.43 Believe it or not, Table 11.1 only scratches the surface of pricing strategies. If you are fascinated by these, grab a marketing textbook and learn about even more methods for saying "sale!" New pricing strategy ideas crop up all the time. For example, Amazon, Priceline, and eBay let the customer set the price,44 so there are always new methods to learn about. To wrap up this chapter, remember that the marketing effort in small businesses starts with the idea for the product or service and builds from there to include the key benefits that customers will want, the price they are willing to pay, and also some larger issues such as innovativeness and where the product or service is in terms of its life cycle. Together, these issues can help you craft a pricing strategy that can lead you to success. Even if your product or service is imitative, your profits do not need to be. The secret is in understanding the market, the cost of doing business, and the prices your customers are willing to pay.

NEW YORK LOCK
KRYPTONITE

Regular
396 9/10
Plus
426 9/10
Premium
436 9/10


T-Shirts
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Inelastic Products
25% Drop in Quantity
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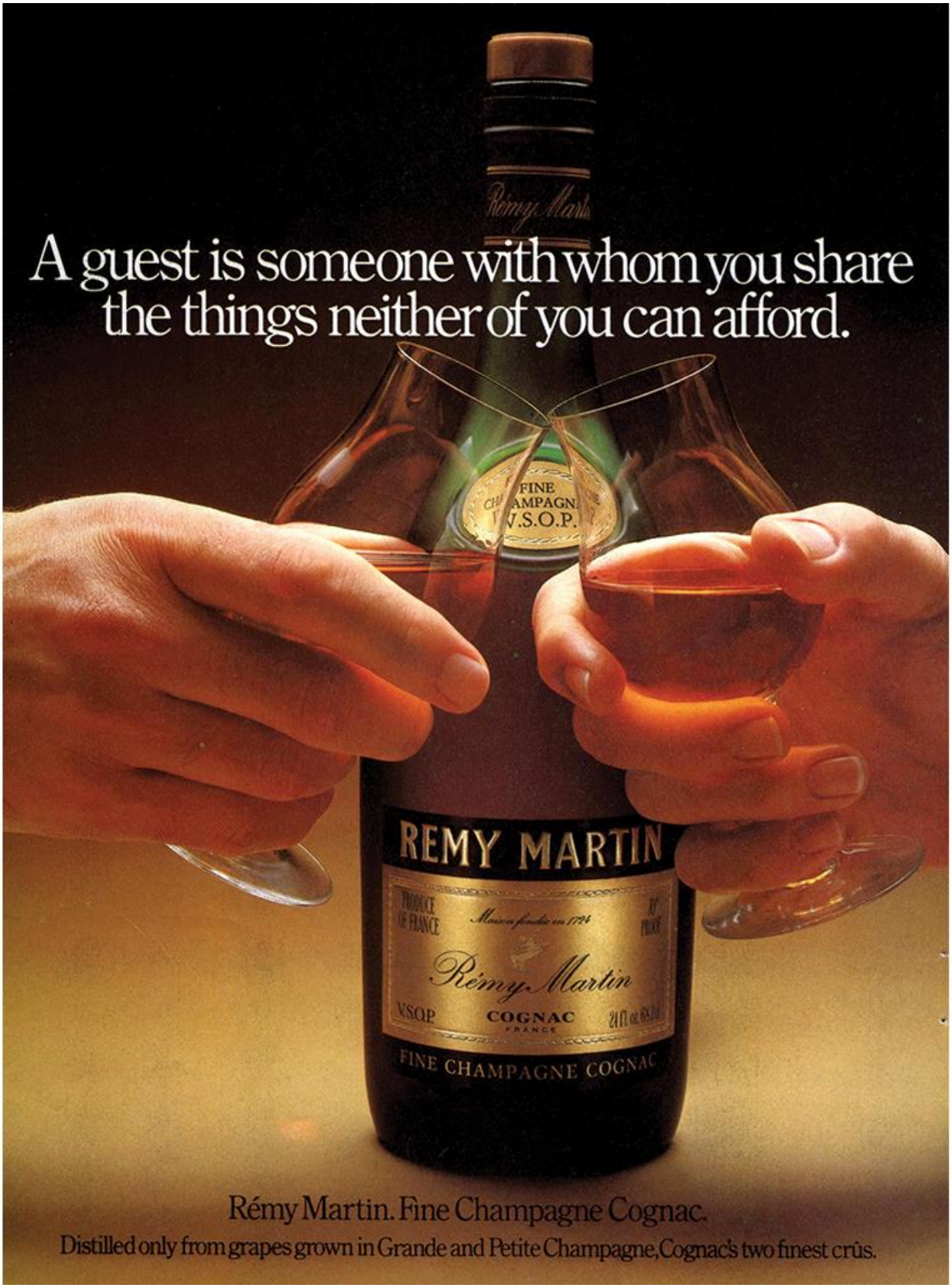
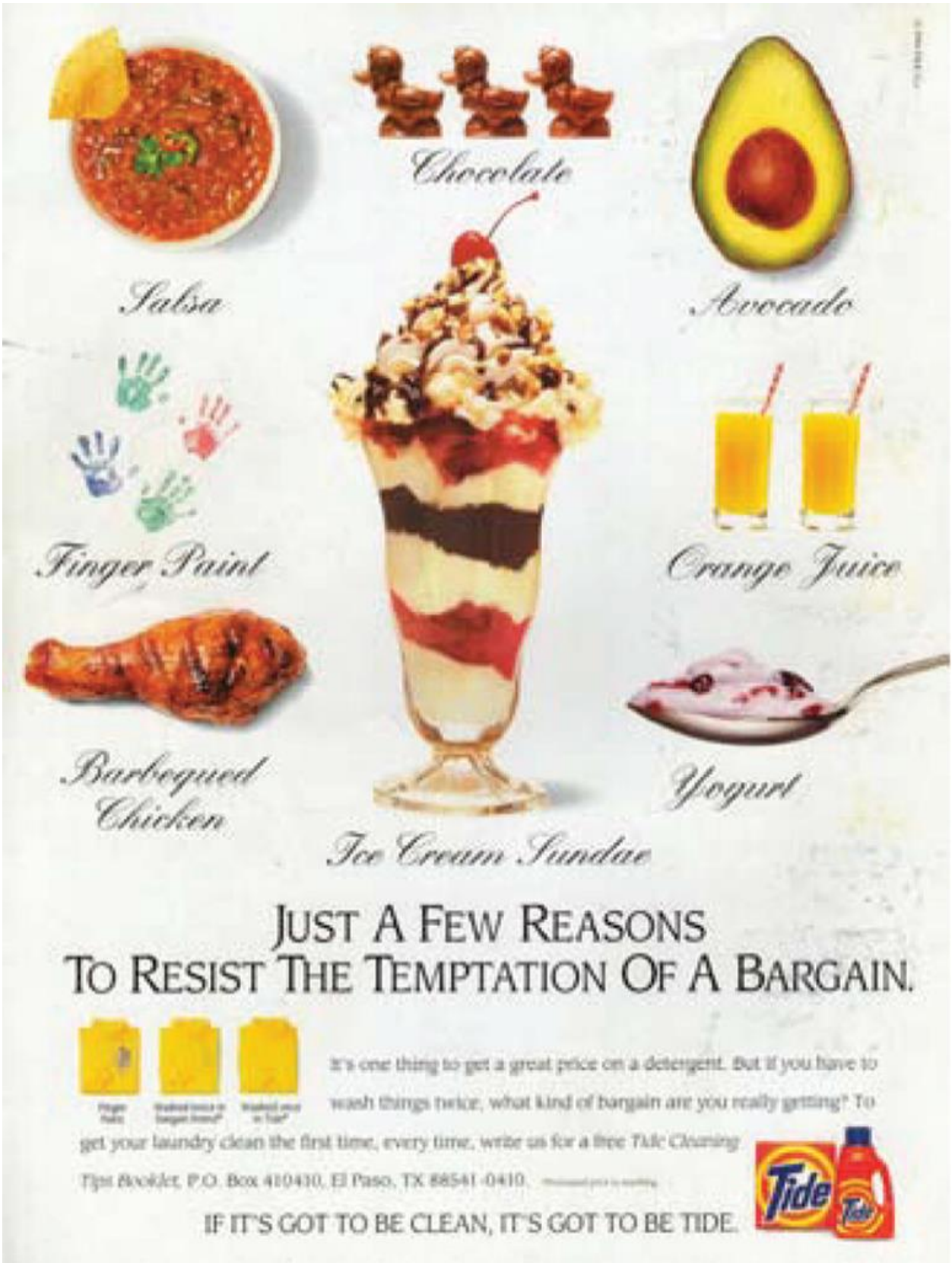
Gas for 150 Miles
Gas for 200 Miles

SCREAMING
EAGLE

SOFT ON PAWS
Ultra
PEARLS
Crystal Cat Litter
1st in
ODOR
CONTROL
ONE BAG • ONE CAT • ONE MONTH


A guest is someone with whom you share the things neither of you can afford.
REMY MARTIN
Rémy Martin
V.S.O.P
COGNAC
FRANCE
FINE CHAMPAGNE COGNAC
Rémy Martin. Fine Champagne Cognac.
Distilled only from grapes grown in Grande and Petite Champagne, Cognac's two finest crûs.




# JUST A FEW REASONS TO RESIST THE TEMPTATION OF A BARGAIN.



It's one thing to get a great price on a detergent. But if you have to wash things twice, what kind of bargain are you really getting? To get your laundry clean the first time, every time, write us for a free *Tide Cleaning Tips* booklet, P.O. Box 410410, El Paso, TX 88541-0410.

IF IT'S GOT TO BE CLEAN, IT'S GOT TO BE TIDE.

| | |
|---|---|
| Completely custom site | 15 hours |
| Custom graphics | 5 hours |
| Integrate 7 pages of typed content (2 hrs/page) | 14 hours |
| Mobile Friendly (Responsive Design) | 7 hours |
| Contact form | 3 hours |
| Site search | 4 hours |
| Google AdSense integration | 2 hours |
| Traffic statistic reports | 1 hour |
| MetaTag keyword optimization | 5 hours |
| Search engine submission | 3 hours |
| Twitter integration | 3 hours |
| Facebook page | 5 hours |
| Total number of hours | 67 hours |
| Estimated budget | $1,423–$6,934 |
| Estimated average | $3,685 |

Source: Computed using the web design wizard at www.designquote.net/html/dq_estimate_wizard.cfm.

Sales Promotions 11-3 Understand the types of sales promotion available to small businesses. Sales promotion, along with advertising, press/public relations, personal selling, and direct marketing, is one of the major forms of marketing. Sales promotions are a form of communication that encourages the customer to take immediate action. Good examples of sales promotions include: Discounting techniques like coupons, rebates, discounts, buy-one-get-one promotions, and of course the unending garden-variety sort of sale. Introductory techniques like giveaways, samples, and tastings to help introduce your offering to potential customers for subsequent purchase. Contest techniques like sweepstakes, contests, and games that introduce your brand to customers without an immediate call to purchase. Loyalty techniques like referral programs, social media likes, and customer loyalty programs to increase the stickiness of your brand among customers. Page 391 As you might recall from Chapter 10, many of these techniques pop up in the "Keep Customers" part of the customer development model funnel. The techniques of sales promotion range from inexpensive (sales flyers photocopied) to expensive (all-

expenses-paid vacations). They are relatively easy to manage (sales and coupons) to much more complex (contests and sweepstakes). When using contests and coupons, it is a good idea to check into local and state laws, since there are some places that prohibit or limit how these are used. For example, if you use a sweepstakes in Florida or New York, you need to post a bond equal to the amount of the prizes.45 Tom Grill/Getty Images • Coupons are one of several sales promotion techniques small businesses can use. These coupons were sent by mail, but you can also provide coupons online through your firm's website or coupon aggregator sites like Dontpayfull.com or DealCatcher. Discounting Techniques A variety of methods are used to reduce prices and promote sales. Most coupons are delivered in newspapers (80 percent)46 or magazines; by mail; on packages, handbills, or door hangers; on the Internet; and in person. The higher the value of the coupon, the more likely it is to be redeemed. But even so, coupon redemption runs only 2 percent in the United States. About 64 percent of all Americans are willing to switch brands if they have a coupon.47 Coupons are a great way to get people to try new products as well (reduces the risk). Even if coupons aren't redeemed, they serve an advertising purpose. Consumers see them and their brain registers a lower price. Even if they forget to clip the coupon or use it, their subconscious remembers the product favorably. In the same way, a rebate—even one that is not redeemed—leaves people with the impression they saved (or could save) money. Rebates are so powerful that many people, seeing there is a rebate on a product, might buy it even though it was not something they were in the market for at the time.48 Loyalty programs are intended to tie customers to your business. Most often, these take the form of a card (see Figure 11.3) on which each purchase is stamped, and when a certain number of purchases or visits have occurred, the customer gets a free service, a discount, or a gift. Again, people may lose or not use the card in their purse, or wallet, but in their minds they hold the perception that they are getting a good deal. If that's not a good enough incentive for you, how about the fact that 45 percent of all consumers spend more money in stores with loyalty programs?49 FIGURE 11.3Typical Loyalty Program • Loyalty programs, like this one for Costa Coffee, are intended to increase the retention and spending of your customers. Realimage/Alamy Stock Photo Introductory Techniques50 The key for giveaways, samples, and tastings is promotion in advance to get people aware and likely to attend the event, or scheduling the event for a location sure to have a good crowd of your target market. Consider placing signs to guide participants to your site, and make sure the site, the offering, and the staff are presented as attractively and positively as possible—this will be the first time many potential customers will be seeing your business, so they will be forming their first impressions. Bring plenty and give it out freely. The whole idea around this type of promotional effort (unlike contests or sweepstakes) is that everyone who comes gets something. Offer coupons giving discounts or buy-one-get-one deals to those at the event, and if you can sell the product there (or book the service), do

so! That is what these events are all about. Consider getting people to post to social media about their experience at your event. It is a great way to build a customer base. Page 392 It can be exceptionally easy to create introductory experiences on the Internet. Often these involve giving away samples of your product or service—like the first chapter of your new book, or a checklist (with answers) from your new book or online service. The same suggestions apply: You want your offering on the Internet to look as good as possible, and you want to promote it widely through your own social media accounts, relevant bloggers and websites catering to your audience, and maybe even with online ads focused on your target market. Contest Techniques51 In contests, people compete for a prize, whereas in sweepstakes, winners are usually drawn in some usually random fashion. In some ways, the preparation for these is a bit more complex. To protect yourself and your reputation, you need to think through and post the rules for the contest or sweepstakes. What are the dates? What do you promise to do and what do you promise to offer? You also want to think about how much you will be asking of participants for them to qualify for a shot at the prize—giving an email address? Answering a couple of questions to help you in your marketing efforts? Offering slogans, logos, photos, social media postings? If you have them contributing something to your firm, you want to make sure you have the rights to use the information or material in the future. These techniques can be used to generate leads for future sales, or as an incentive to existing customers to remind them about your firm and get them active with it once again. As with the other sales promotion techniques, you want to have your advertising effort planned well ahead of the contest, to drive as much traffic to your content (and your business) as possible. Loyalty Techniques Loyalty programs are generally thought of as a rewards program that benefits returning customers. They can offer rewards like free or discounted merchandise, special events, or coupons or special deals with partner firms. You can manage these yourself (search online for “loyalty program software”), or there are online services that will run your loyalty or referral program for you (for a fee, of course). There are several highly rated platforms for managing loyalty programs (and other elements of sales in your business) as reported by Capterra. For a few examples of services with freemium models (which are often the best place for small businesses to start) see the Learn More Online box below. LEARN MORE ONLINE Learn more about loyalty programs at these sites: Capterra’s List of Customer Loyalty Programs: www.capterra.com/small-business-loyalty-programs-software Tango Card: tangocard.com NiceJob: get.nicejob.co In fact, a lot of companies offering gift cards also offer loyalty card programs. Advice for making a loyalty program work well includes keeping it simple, having tiers so customers can grow in the program, matching benefits to what customers value, and above all, tracking the program to make sure it is helping you keep and develop your most committed customers.52 If you have multiple customer segments, you might benefit from multiple loyalty programs. A variation on the loyalty discount is the

referral discount, in which a current customer refers a new customer to use the service or buy the product. The older customer then gets a discount for referring the new business. Since, for services, the recommendation of a friend or relative is often a deciding factor in a purchase or in trying a new service, referral bonuses can be a powerful technique.  Page 393  The growth of social media has made it easier than ever to connect with customers and get customers to refer their friends to your business. Getting customers to like your latest social media post means their friends will see the post, and your business. It is a simple, free, and powerful way to generate referrals. But for this approach to be the basis for your loyalty program (where the customers get some sort of benefit for posting) or referral program (where customers get a benefit when friends come to your business) requires some thinking ahead of time. It can be as simple as thinking through what customers would want, and what you want them to tell others about. But it will also depend on how your firm rewards customers who like you. Rewards can be emotional, liking them back, which doesn't take a lot to set up, or tangible, such as discounts or points toward some reward, which you will want to be conscientious about tracking. Keys for referral programs are similar to those for loyalty programs, but take extra steps to promote the best referrers to the rest of your customers to inspire them to participate too.53

COSTA
COSTA
COFFEE
CLUB
COSTA
Enjoy FREE Costa coffee when you collect points.

Distribution54  11-4 Recognize the different types of direct marketing and their pros and cons.  Other chapters have answered a lot of the who, what, when, why, and how questions about small business; the rest of this chapter deals primarily with the where. There are two basic where questions to be considered. The first one is, “Where are my customers?” In answering this question, you are primarily interested in figuring out how to get your product or service to them so that they have the opportunity to buy it. Distribution is the process of getting your product to the customer. The second question is, “Where should I be?” This question can be closely tied to the first—if your business is a restaurant, you need to be exactly where the customers are. Other businesses can be located at a distance from their customers—and often find advantages in doing so.  To help explain why channels are important to your marketing strategy and profits, think about the implications of the different channels shown in Figure 11.4. They differ in terms of the number of intermediaries between you and the eventual customer. Keep in mind that every one of the intermediaries will want to make a profit for selling your product or service, so they will each add their share to the price you sold to them. Assume you created a product that cost you $5 to make and sold it to an agent or to a retailer for $10 to resell. They want their profits, so they mark up the price to $20.  FIGURE 11.4Typical Distribution Channels Realize that the more intermediaries you add, the higher the eventual price of your product. Also keep in mind that all of your profits are based on your first sale of the product. Hold that thought a second.  Page 394  As the manufacturer of the good or service, you have the ability to set the manufacturer’s suggested retail price of your product. To do this, you need to think of how many intermediaries are likely to be in the channels for your product. In the previous example, with a single intermediary, your $5 product costs end consumers $20. That approach is called direct sales and is part of direct marketing. But what if there is a second intermediary, for example, from you to a wholesaler or distributor, who in turns sells to retailers? Not everyone doubles the price they paid for a product, but for this exercise, if they do double the price, then your $5 product costs consumers $40. If your product is popular, then everyone is happy—the consumers certainly are and because of their happiness, the retailers, wholesalers, and you are probably happy, too.  Because of the math of intermediaries in channels, the possibilities for direct marketing become more and more attractive. Why? Well, it would not be fair to all those intermediaries if you sold your product to the public for $10. In fact, doing so would pretty well ensure that few intermediaries could compete with you and make a profit. But because you have set the retail price at $40 to keep your intermediaries happy, you too would sell to the public for $40, in which case instead of your usual $5 profit per product sold to other resellers, you are suddenly making $35 profit per sale! Done this way, your resellers are happy and not overly worried about you as a competitor, and you are happy because direct sales can be some of the most profitable ways for you to make sales. We go into direct marketing and

direct sales next.  Direct Marketing For many entrepreneurs—and larger firms as well—direct marketing is the way to go. Direct marketing refers to sales where the entrepreneur is selling to the end user of the product or service without any other sales intermediaries involved. It can be as simple as the child who sets up a lemonade stand in front of her home, or as complex as a four-color printed catalog with a mass mailing. Direct marketing can be relatively inexpensive. It also provides more control over where your product or service goes, the information that gets passed along to the consumer, how the product is used, and final pricing. In Chapter 5 you were introduced to several forms of direct marketing through the Internet, including eBay. Even having learned these, there remain about as many forms of direct marketing as there are entrepreneurial ideas, and some of the more common ones are discussed here.  Word of Mouth55 This is a great way to get customers and is usually the first technique an entrepreneur uses. Word of mouth56 is discussed in detail in Chapter 10.  Direct Sales Direct sales (industrial, door-to-door, party sales, vending) can take several forms. This is the primary way of selling to businesses. A salesperson (often you) contacts industries, churches, schools—whatever type of business is likely to use your product or service—directly. The salesperson meets with the decision maker, presents the product, and hopefully makes a sale.  The lemonade stand mentioned is also a form of direct sales, albeit a little less professional than you may want to be. A more polished approach is a booth at a local fair, cultural event, flea market, craft fair (all of which are discussed in Chapter 5), trade show, or association event. The cost of leasing space can be less than $100 for a local flea market to hundreds of thousands of dollars for a major space at a national trade show. For a flea market, a simple card table may be appropriate, while the cost of a professional booth at a major trade show could easily top $100,000. The key here is to pick the event most likely to attract your target market and least likely to make a serious dent in your pocketbook. Start small and move up as you get more sales revenues.  Page 396  • Whether it is your first effort at a lemonade stand at home or your tenth stand at a top tourist attraction, direct sales is the basis of most entrepreneurs' retailing efforts. Did you try direct sales while growing up?  Paul Bradbury/Caia Image/Glow Images; Image Source  Some of the other techniques discussed in Chapter 5 that are also direct sales methods include door-to-door sales (remember the Avon lady?), party sales (think Amway, Younique, or Mary Kay),57 and vending machines. For products that need demonstrations or detailed explanations, door-to-door selling allows you to show consumers how your product works in their home. Part of the success of home sales is that it is hard for consumers to say no after the salesperson has spent some time in their home—it’s just not hospitable. This method is made more difficult these days with dual-income families because evenings are usually the only time to catch people. Consumers are often reluctant to invite strangers into their home, but you might be able to at least introduce yourself and leave behind information about your

product or service. Avon used to sell predominately through door-to-door sales but has branched out into Internet, mail order, and mall kiosks sales in order to combat declining door-to-door sales for the reasons just mentioned. Page 395 Party sales usually require a range of similar items to be sold, and this kind of selling is not appropriate for every product. Typically, a host invites a number of friends and family members to his or her house while a company representative (you, at first) demonstrates the product. Samples of the products as well as catalogs are available for all the guests to browse through, and orders are taken at the party for later delivery. Typical party sales products include everything from laundry aids to makeup to lingerie to cookware to housewares. Two of the disadvantages are the sanctity of the home and the reluctance of people to open up their homes to strangers (salespeople). As these parties take several hours of a salesperson's time and can usually be held only in the evening, one person is limited to how many parties (sales) a week he or she can handle. Generally, the successful companies using this method have hundreds of salespeople who earn a percentage of each sale they make. Many entrepreneurial firms have grown tremendously from a party sales approach—Mary Kay, Amway, Pampered Chef, and others.58 Trade shows and expositions are powerful direct marketing techniques for many businesses, like Steve Niewulis from the chapter's opening vignette used. Almost every industry has a trade show where firms in the industry come together to learn about the latest ideas and offerings. Search online for "trade show directory" to find listings for your industry and see Skill Module 3.1. For consumers, there are a host of expositions like house and garden shows, baby shows, car shows, boat shows, outdoor shows, and the like. You can find them by searching online for "exposition directory." The advantage of trade shows and expositions is that nearly everyone attending can be a member of your target market, so it is a great place to prospect for business and engage with a lot of potential customers in a very short time. It is also a great way to see your competition up close to better understand what you're up against. Vending machines aren't appropriate for every product, but they do offer the flexibility of having your product available around the clock and at convenient locations for your customers. Vending machines are typical for less expensive convenience products. The key to success is volume achieved with machines located everywhere. People are willing to pay extra in order to have the product readily available. Compare the price of a can of your favorite beverage from a vending machine to what you would pay in the grocery store. The disadvantages of vending machines are their high maintenance and vulnerability to vandalism. Direct Mail and Its Variants59 Direct mail can take many forms—postcards, catalogs of your products, videos, mail orders, sales letters, brochures, leaflets, emails, and many others. A variant of this, Internet-based direct mailing, is introduced in Chapter 5. There are several advantages to the direct mail approaches: the ability to sell on your schedule, low costs for getting started (especially if you sell your goods online), the ability

to get by without major inventory investments, and the potential for selling to large markets. It plays well with customers too because they tend not to see direct mail as a form of home invasion (as they often do with door-to-door sales or telemarketing); they can read it at their leisure, and they have something they can set aside until they need it. Of course, there are challenges to this approach including adequate preparation before selling, the need for writing and photography skills, and a way to get customers' attention. Perhaps the greatest challenge is the need to find the right market for your offering. In direct mail, market translates into getting the right mailing list or sales vehicle. There are many companies that will sell you a list of addresses (even a list already typed on labels), and these are often available for virtually any target market you may choose. The cost of these lists can vary, but current rates are about $60 to $75 per 1,000 names. Try InfoUSA.com (as shown in Skill Module 11.2) or Focus USA (www.focus-usa.com), or do an Internet search for direct mail lists. Also, professional organizations, churches, and clubs sometimes will sell their mailing lists for relatively modest fees. SKILL MODULE 11.2 Building a Mailing List Recall in Chapter 10 we talked about a bilingual day-care center in zip code 85037 in the Phoenix area. If you wanted to send out a flyer or invitation to the families with children in the zip code, it is possible. Go to www.infousa.com and click on "Consumer Lists." When you've read the background info, click on the "Get Started" button. Now you will see a box asking if you want leads for mailing, calling, or both. Let's pick mailing for this exercise, and accept the default "Very Little Risk" deliverability option. Then select "ZIP Codes" and type in 85037 as in the following screenshot: InfoUSA Click the "Update Count" button in the upper right of the screen to find out how many addresses are in this zip code (12,369 in November 2019). Since we want households with children, click on the "Optional" tab where the first set of variables include "Children." Click on "Households With Children" and hit the "Update Count" button. The count becomes 3,854 leads. Let's limit age from zero to 5, so the count becomes 1,371 leads. Hit the "See Price" button to learn how much you'd spend for these labels. You'll need to sign up (which is free) to get the quote, which is $233.07, or 16 cents a household. Page 397 The other major technique for generating lists of mail or email addresses is to create landing pages offering potential customers something of value in return for their contact information. Search for free landing pages to find places (many offering advice and free templates) to host a landing page. Announce them on social media to get the word out for free. There are also other low-budget ways of getting a mailing list. Often membership rosters are distributed to members of certain organizations. If such an organization meets your target market, you can have the list for the price of membership. One caution, though: Sometimes members are expressly forbidden to use these lists in any commercial way. Check with the organization if you can send a mailing with an article that would be of value to most members, and limit your advertising to mentioning who you are, your business name, and website or Facebook

page. If the article truly is useful, your product or service is one that a number of these members are likely to want, and your mailing isn't too much of a commercial, they may very well say it's okay. Those sales vehicles already mentioned refer to the magazines, newspapers, or websites you select to display your mail order ads. If you are targeting doctors, advertising in the local newspaper would get you most of them, but you also would be paying for the ad to be seen by 98 percent of the readers who are not doctors. There are magazines and websites that focus on particular groups. These include the trade magazines you learned to find in Skill Module 3.1. For websites, a quick Google search of "doctor's websites" will get you started. You can use a service like Similarweb.com to check on the overall traffic to sites, although the magazines and sites themselves should give prospective advertisers like you more detailed information on their visitors. The other challenges mentioned relate to preparing an ad that does a good job of answering the customers' questions and entices them to buy. There are best practices for writing copy for ads and they are discussed in Skill Module 11.3. SKILL MODULE 11.3 Making Mail Order Ads Work60 WRITING AD COPY Headlines are key: Focus on the customer's needs, benefits, problems, or goals. Keep the headline short—five words or less. Scan the mail order ads of your newspaper or magazines to see what attracts your attention, and check the headlines of your competitors. Unless your company name is famous, its name should not go in the headline. Put the payoff up front: If the customers don't see the payoff to them for using your product in the first sentence or two, they will give up and look elsewhere. Offer incentives: In the body of your ad, consider putting in a discount ("Save 20 percent if you mention this ad!") or coupon to spur customers to action. Put an end date on the offer to move them along. A variation of this is to register customers in a drawing for a prize. This helps keep promotion costs down. Add visuals: While adding pictures can be prohibitively expensive, check out lower-cost options such as different font styles or sizes to make your ad distinctive. Sometimes line drawings are possible, and they are usually less expensive than photos. PLACING ADS Place newspaper ads: You can always place classified ads, but for ongoing sales, you will want to use column ads in the regular sections of the paper. Think about what section of the paper is the one most likely to be read by your customers. Also, think in terms of what days of the week make sense. If the big automotive ads are in the Wednesday paper, that may be when you want to advertise your car repair service. Find magazines: In order to find the appropriate newspapers in which to place your ads, consider the following: usnpl.com or magazine-directory.com. At your library, you can find hard-copy magazine directories from Oxbridge, Burelle, and Bacon. Get the media kit: Contact the magazine or newspaper of interest and ask for its media kit. These kits tell you about the types of ads, placement options, and costs. They're a great way to get an understanding of the basics of the ad business. Monitor: Put a code in every ad, and ask customers for the code in their orders. That way you can track which ads work

best for you.  Page 398  Everyone is familiar with catalogs. They offer customers a description and often a picture of the product and tell the customer how to order it by mail, phone, or online. Catalogs are usually targeted at particular types of consumers and focus on particular types of products.  You can start a catalog of your own. Depending on the size and quality of the catalog, costs for print versions start at around 50 cents each and can rapidly go up to $2, $5, or more. With modern printing systems, there often is not a minimum number of catalogs you will have to order. Still, online catalogs are a less expensive approach. Creating and disseminating a catalog online saves you the cost of printing and mailing. Generally, web hosting services offer shopping baskets that are in fact online catalog-making programs.  However, most part-time entrepreneurs typically try to get their products into existing catalogs. Here the catalog firms function as your first customer; you want to convince them to carry your product. You can find catalogs through the www.catalogs.com site or from print directories in the reference section of your local library.  When you have found the catalogs, try to obtain copies and check to see how your product would fit. Once you've identified your target catalogs, the key person you will be trying to find (by phone, mail, or online at the websites) is called a buyer. For the bigger catalogs there will be several buyers, each specializing in a few product areas. Buyers usually require pictures of the product, and some will want to see the actual product. Buyers are used to buying based on preproduction models and prototypes. This works well with part-time entrepreneurs trying to maintain a microinventory. A microinventory is a set of goods or services that consists of only one or a few items. Microinventories are the small business's answer to just-in-time (JIT) inventory methods in big business. In microinventories, you try to buy your product or prepare your service only after you get an order. For this to work, you need a stable, consistent, and secure source of inventory supply.  When possible, try to talk to the buyers by phone first to make sure your product would fit their needs. Also make sure you check out each catalog's requirements for companies listing with them. There are many factors to consider such as whether the catalog charges for a listing; whether it holds the inventory (and if so has it bought it), or does it expect you to drop-ship it; and whether the catalog gets an exclusive on your product and the right of first refusal for future versions or even your entire line. While these are policies held by thousands of catalogs, there are always other catalogs with different policies so negotiation may be possible. Also, check out the catalog with the Better Business Bureau (www.bbb.org) to make sure it has a solid track record among entrepreneurs like you. Entrepreneurs typically send buyers a packet with ad copy and pictures of the product. It often helps to provide different versions of the ad copy and different pictures to maximize the chance buyers see something they like. If possible (or if asked), send a sample product.  It is rare that catalog sales, like most business-to-business sales, are immediately successful. Be prepared to come back repeatedly to catalogs that

best fit your product or market. Persistence shows you are serious about the business. Also, think about local wholesalers. The phone book or business directory at the library can point you to wholesalers who supply local businesses with products. If you know a business your product would fit, you can ask the owner who the wholesaler is and build on that. The materials developed for the catalogs work in terms of introducing your product to wholesalers too. The product description and photo for a catalog can quickly be made into an offering circular that you send to wholesalers to test their interest. Three other direct mail sorts of activities are worth mentioning: direct faxing, email, and daily coupon sites like Groupon. Particularly for business sales, direct faxing can be a way of reaching potential clients. Fax numbers can be obtained in the same way as mailing lists. Unfortunately, frequently faxes are of relatively poor quality, and often the person receiving the fax is not a decision maker. With some specific exceptions, where faxes are still common, this approach is generally on its way out. Anyone who has an email account is subject to this form of direct mail, commonly known as spam. Email addresses can be purchased just as can regular addresses from the same companies. There is also inexpensive software (do a search for "email marketing software") that can easily generate millions of possible addresses. Email is one of the least expensive forms of direct mail, and the cost per recipient is by far the lowest. There is now a nationwide CAN-SPAM Act (search online for details) that specifies the rules direct marketers have to consider, and other nations have their own rules too.61 Page 399 However, in some cases state laws are more stringent and must be followed as well. For example, in California, the email must state "ADV" in the subject line.62 Most of the requirements of the national law are fairly straightforward: Don't in any way falsely misrepresent who you are, where the email is from, or that the email is anything other than a sales pitch. Randomly generated email addresses or harvested email addresses are not to be used. All emails should allow recipients the opportunity to "opt-out" of receiving further email correspondence from you—and you must obey their wishes on this.63 Spam is a hot topic and legislation changes are likely, so be sure to check on current rules. "Opt-in" email, where recipients allow you to email them, is legal and much more acceptable to the potential client. One of the areas of explosive growth on the Internet has been around daily deal sites. Groupon.com was the first to strike it big, but today there are literally hundreds of sites. There are two major types. One is coupon sites, where you can buy a coupon that entitles customers to a discount on a product or (more often) a service, for example, getting a $50 massage for $10. These are intended largely as a way to build awareness of and traffic to your business. But be ready to manage a major spike in customer demand immediately after a coupon comes out. Many businesses find that they have trouble meeting demand if there are too many coupons in customers' hands. The other type of deal site is called a group buying site or deal-of-the-day site, like livingsocial.com, which usually offers viewers

a chance to buy a product at a discount. This is a way to get rid of excess inventory, but keep in mind that the discount levels for such sites can be very high, squeezing the profit margin severely. For either type of daily deal site, make sure that you can limit the numbers of coupons or products that you offer. Also look for sites that have success with your type of offering and your target market. Today there are thousands of local sites, and they, as well as most of the major national daily deal sites, will let you focus your listing in particular geographic areas. See the Learn More Online box below to find websites to list your coupons and deals of the day. LEARN MORE ONLINE Learn more about the topics above at these sites: Gottadeal, for deals and coupons: www.gottadeal.com/ Coupon Website Directory: www.couponwebsitedirectory.com/ MyCoupons: www.mycoupons.com/ Telemarketing We have all received telephone calls from salespeople (or worse yet, recorded messages) wanting to sell us everything from aluminum siding to vacations. While most consumers find this method particularly annoying, telemarketing still remains a viable form of direct marketing because it works. It is, however, the most expensive form of direct marketing. The best way to handle this is through the national Do Not Call registry maintained by the FTC at https://telemarketing.donotcall.gov/ for sellers. Target market telephone lists may be purchased from the same companies as mail or email addresses—theoretically cleansed of all do-not-call registrants. Inbound telemarketing is a different story. Here, the customer calls the manufacturer or service provider. This may be in response to a direct mail piece, direct response advertising, or other methods. A major consideration for the entrepreneur is handling the phone lines. Your California customer calling at 8 P.M. reaches your home in Connecticut at midnight. This is where voice mail with a message stating working hours (located far from your bedroom or with the sound turned off) is a necessity. Page 400 If inbound telemarketing is your primary way of doing business and if there are enough calls (and profit) to warrant it, there are firms that will answer these calls for you. You can find them by searching online for “call center services.” Generally these firms can take orders or send on additional information; more technical problems or special situations will require your personal attention. The cost varies, again based on the amount of service and volume of calls. These centers can also provide services in several languages if this is critical for your firm. Direct Response Advertising In direct response advertising, you place an ad somewhere—magazine, newspaper, radio, billboard, or television, for example—that includes a phone number, email address, or snail mail address and wait for the orders to come in. (Placing a website in the ad is technically part of Internet marketing, which we get to in a moment.) This can be as simple as a classified ad in the newspaper or as elaborate as a half-hour infomercial—and the costs associated vary as much as the type of ads. A chart showing the cost per thousand (CPM) for a variety of media is given in Figure 10.5. The pros and cons of your media choice are just about what you’d expect. Television can be expensive, but it attracts a large

audience and is a good way to demonstrate what your product is capable of doing. Try cable channels for the cheapest rates. Many stations offer discounted advertising for small businesses. This might not amount to much more than an announcer reading your ad over the credits of the local news, but it's a starting point. Some of the home shopping networks may be appropriate if your product meets their criteria. These networks publish their standards on their websites and may offer days for inventors to demonstrate their products to studio personnel—a chance to sell your concept. Products that work well are those that have a wide appeal and have advantages that are easy to demonstrate, like the Floppy Sprinkler (see the Small Business Insight below). A magazine allows for very specific targeting—a hobby, sporting interest, a certain age, or other demographic group—and often offers classified type ads (less expensive) or multipage, full-color ads (much more expensive). Newspapers allow geographic segmentation; that is, they are a great source if you want to attract people in a specific geographic region (think restaurant, day-care center, and the like). Page 401 Magazines are also very appropriate places for direct response advertising for business-to-business selling. Virtually every industry, trade, and profession has a magazine dedicated to it. Finding the correct one and placing your direct response ads will give you high contact with your target market. Try Gale's Directory of Publications and Broadcast Media or the Encyclopedia of Associations, probably at your library, for lists of industry trade magazines and trade associations. You can also refer back to Skill Module 3.1 for some help along these lines. Radio ads provide both geographic and demographic segmentation; if you custom-design cowboy boots or train horses, a radio ad on the local country western station might be just the right place. On the other hand, radio audiences are generally highly distracted; people listen to the radio while driving or doing housework or other tasks and might not be able to drop everything to write down your phone number. Billboards reach local people but do not permit a lot of details. Other possibilities include signs in buses and cabs or at bus stops. SMALL BUSINESS INSIGHT Floppy Sprinkler USA64 Jeff Pettit, the founder of Floppy Sprinkler USA, LLC (www.floppysprinkler.com), used television to get the word out about his unique water sprinkler called Rain on Demand. The idea was so different from traditional water sprinklers that a demonstration seemed the logical way to convince customers of the product's worth. Pettit found information for submitting ideas on the QVC website (www.qvc.com) and got his opportunity. His company started in 2000. With the QVC push, sales reached $250,000 by 2002. Today, his product is patented in 34 countries and is being marketed worldwide by a South African firm that has licensed the rights to the product. Today it sells it not only as an improved lawn sprinkler, but a water-saving, yield-increasing irrigation system for farms—a highly lucrative additional market. For a start in direct response advertising, consider a classified-type ad—no pictures, limited graphics (if any), and relatively low cost. If your target market is a specific geographic region, newspapers

might work best. If it is specific to a hobby, job, sport, or other interest, try a magazine catering to that interest. If the budget allows, try a quarter- or half-page ad with some color or modest graphics. Magazines will sell you an eighth- or sixteenth-page ad. Remember that there are also the relatively low-cost methods of Internet advertising such as videos, blogsites, postings on Facebook or Twitter, and a host of other techniques (described in Chapter 10) that can be as effective or even more so than the traditional marketing vehicles.65 Guerrilla Marketing66 Guerrilla marketing is a relatively new concept in marketing but the start-up company's best friend. Guerrilla marketing is a term for unusual and nearly free advertising. While it can be simply advertising—stating why your product or service is great—it's extremely effective as direct response advertising when you add your phone number, address, website, or other contact information. Guerrilla marketing includes everything from placing flyers under windshield wipers of cars to waving signs at passing cars to hanging information on doorknobs to placing business cards on bulletin boards at the grocery store - or even making a personal appeal to a key influencer as in the case of Courtney Hennessy in the Small Business Insight. For the cost of copying and a bit of shoe leather, you can get your message out to a lot of potential customers. Then again, if you aren't interested in delivering the message yourself (How valuable is your time?), there are many companies that will do this for you, such as www.globalflyerdistribution.com or a local service. Often local newspapers will let you distribute newspaper "ride-along" advertisements, doorknob hangers, flyers, or product samples to selected target neighborhoods. It will even design and print your advertisements for you for an extra fee. The key here is to catch the customer's attention. We talked earlier about daily deal coupon sites, but when it comes to couponing, there are a myriad of ways to get the word out to your consumers. Susan P., moving into a new house in a new subdivision, became part of the target market for landscapers, house cleaners, blind and drapery manufacturers, pool installers, satellite television installers, painters, decorators, local restaurants and merchants, and a plethora of other such small businesses. Daily there are several pieces of advertising trying to get her attention. A few—very few—are slick four-color brochures or in-mail catalogs and coupons. The majority are low budget or homemade. What attracts her attention? "Coupons are a good bet; I'll try out a restaurant or neighborhood merchant if I get a discount or free dessert or some other gift. Others that catch my eye are those that are different. For example, a landscaper left his business card—just like several dozen before and after him—but his was in a small plastic sandwich bag with a few samples of decorative gravel and bark. It cost him only the time to make these, but this was much more appealing than just sticking a business card in my door." In another case, a decorator printed her ad on a wallpaper sample—colorful and different!67 SMALL BUSINESS INSIGHT Courtney Hennessey Revisited—Guerrilla Guru68 We met Courtney Hennessey Hopson of Codi Jewelry (www.codijewelry.com) for the first time in Chapter 5. While

Courtney might not have realized that she was a guerrilla marketing expert, her experience speaks for itself. Her first products were stretchy bead bracelets, and she generated interest by wearing them around town. People would ask about them, and she'd take orders. If they didn't place an immediate order, she had business cards to pass out "for future reference." She gave out business cards with all her sales, too, so her customers could pass them along to people who commented on their new jewelry. One of these cards ended up with a Neiman Marcus associate, which resulted in several trunk shows at the store, where she was allowed to present her merchandise directly to the jewelry buyers. One of her more unusual marketplaces—and possibly a marketing first—was her great aunt's wake where she brought samples of her jewelry and walked away with $800 in orders. During a vacation in the Bahamas, she happened to be eating at the same restaurant as Regis Philbin, host of one of the top morning talk shows of the time, Live with Regis and Kelly, and worked up the courage to approach him with her story and samples of her jewelry for his wife, daughters, and cohost Kelly. Regis presented the necklace to Kelly during the show, telling the story about Codi Jewelry, resulting in well over 100,000 hits on her website the next week. None of these "marketing ploys" cost her very much, but all were incredibly successful at generating publicity for her firm and getting resulting orders.
Page 402 • Guerrilla marketing, as in the photo, gains potential customer attention while helping small businesses keep down marketing costs. Which guerrilla options seem most effective to you, and why? Do you see any ethical concerns with guerrilla marketing techniques? Courtesy of The Michael Alan Group Find unusual and unique places to display your products. Can you wear your own creations? Can you pass out samples of your homemade fudge to your bridge club? Could you display your product alongside complementary products or services, such as a custom jewelry maker who arranges to display her product at the checkout counter of a local hairstylist, with both of them splitting the profits. Give your product as gifts, along with your business card or other contact information, and encourage the recipients to pass along that information to anyone who asks. A variant of this is to try a barter arrangement with local TV and radio stations. You give them your product or service for free or at a significant discount in return for their mentioning it, or preferably endorsing it, on the air. All of these approaches share the common quality of guerrilla marketing—they are low-cost ways to gain a potentially high impact on your market. Multichannel Marketing The term multichannel marketing refers to using several outlets for contacting your customers. If you include in your classified ad your phone number, your website, and your email address, then you are a multichannel marketer. One customer may pick up the phone. Others will email or browse your website. This simply allows your customers to contact you in the way they feel most comfortable. Having your phone number, website address, and email address on your packaging ensures that your customer can find you again should a retail outlet decide not to carry

your product any longer.69 Page 403 Distribution Issues for Direct Marketing Even when your shippers pay postage, you'll need to know where to go to find the information you need to add that to the amount the seller pays. You'll need a decent postage scale and rate tables. These tables can be downloaded from UPS (www.ups.com), Federal Express (www.fedex.com), or the U.S. Postal Service (www.usps.com), and there are commercial sources to help small businesses streamline their shipping by helping you compute costs and compare and manage services, like shipworks.com. Tip: Charge a shipping and handling fee that includes postage as well as packaging materials. Most catalogs have a shipping and handling fee based on the dollar amount of the order. These companies also offer tracking software that can be downloaded and installed on your computer to track your shipments. • Arranging for fast and low-cost delivery is essential to successful distribution. Where would you go to compare shipping costs? Ingram Publishing For small businesses handling their own shipping, in addition to issues of cost,70 there are issues of which services you want a shipping company to offer you and your customer, such as tracking and insurance. There are also issues of pickup and delivery times. You may have a tiered approach to shipping; for example, using the USPS for regular deliveries that are not time-sensitive; a local courier, package delivery, or taxi service for local rush deliveries (at a much higher cost to the customer, of course); and another service for overseas deliveries. As is often the case in small business, a bit of research up front can help you save time, money, and aggravation down the line.71 Fulfillment and Nondirect Distribution 11-5 Learn how to do nondirect distribution. In Figure 11.4 you saw wholesaler, retailer, and agent. These, along with distributors and a dozen or so others not mentioned, are commonly referred to as intermediaries. Intermediaries—frequently small businesses themselves—provide the service of getting the product to the end consumer, including such functions as inventory control, advertising and promotion, delivery and warranty services, to name a few. For these services, they take a percentage of the profit. As a result, the final price the end user must pay is often four (or more) times the manufacturing cost. How do you find out which distribution channel is correct for your product? For many start-ups, the simplest initial answer (next to doing it yourself) is to use a fulfillment center. You have probably noticed when buying something on Amazon and some of the products say "Fulfilled by Amazon." For these products, the retailer keeps inventory in one or more of Amazon's over 200 fulfillment centers. These centers warehouse the retailer's products, pack and ship them, and send an automated email to customers to let them know the product is on its way. Other services Amazon and its competitors provide include processing credit cards, supplying inventory levels to your website, reordering products, offering call center services, and handling returns.72 Fees vary, but you want them to fit into the "shipping and handling" fees you plan to charge customers; generally they should be less than 10 percent of sales plus freight costs. Distributors are a good idea if you want

to offer a whole line of products that you don't have to buy or warehouse. In this case, the distributor services several retailers or e-tailers.73 While Amazon is one of the largest fulfillment services in the world, it is far from the only one. To find others (including some in your locality), type "fulfillment center lists" into your favorite search engine and start checking out sites. There are few business equivalents of Consumer Reports, so you will have to do your homework to find the best services for you. Remember to check out your finalists with BBB.org to make sure they have a good record dealing with other businesses.74 Another way to find an intermediary is to start at the end and work your way up by asking each link from whom they buy.75 At that point, you can determine other wholesalers or distributors that carry similar products and begin interviewing them to find the best fit for your product and target market. Another way to locate possible distributors is to attend trade shows. The Manufacturers' Agents National Association publishes a Directory of Manufacturers' Sales Agencies, available in many libraries. Page 404 Unfortunately for the entrepreneur, many distributors and wholesalers are not interested in taking on a start-up product. They are concerned about an unproven source and market, setup charges, and a multitude of other possible problems. On the other hand, talking to distributors—especially in product development stages—may often give you ideas on what to do and what not to do. One way to get a distributor interested in trying your product is to be able to prove that it does sell. In this case, you may have to convince a single retailer to give the product a try. Dr. Bob Wagstaff, the inventor of the Orabrush, had gotten it into stores by literally walking in and talking to managers. As noted in the following Small Business Insight, he faced a rocky road but persevered, working his way through the system. Getting your product into a catalog may also convince a distributor that it's a product worth taking, but how do you get into that catalog? One way is by showing your product at trade shows and gaining sales and recognition. This is the route that Steve Niewulis from the chapter's opening vignette used. Another way to get into a catalog is to find one that carries the type of product you have and for about the price you'll want to charge. Call for its guidelines for submitting new products and follow the information you get carefully. If you aren't already receiving such a catalog, you can check out resources such as the National Directory of Catalogs or The Catalog of Catalogs VI: The Complete Mail-Order Directory in your local library. Some will charge you a fee for warehousing your product, while others will simply pass the orders along to you.76 SMALL BUSINESS INSIGHT How Orabrush Pitched Itself into Walmart77 You recall from Chapter 10 how Orabrush went from an also-ran on the toothbrush aisle to the darling of the Internet when its YouTube went viral. Online sales skyrocketed, but the firm still had trouble getting the Orabrush into major chain stores. Its target was Walmart, the nation's largest retailer. It turns out the Walmarts around Provo, Utah, where Dr. Bob Wagstaff lived and worked, had Orabrush on sale in their stores. A Walmart manager took the plunge, and other local

Walmart managers liked the point-of-sale display and the product enough that they brought them into their stores, too. Those managers recommended Orabrush to Walmart's headquarters. Orabrush sent the buyer at Walmart a customized video on DVD, with statistics, media coverage, and customer comments, but no decision was coming. In the end, they decided to build some support around Walmart headquarters. They created a Facebook ad (tied to a video, of course) saying Walmart employees had bad breath and needed the Orabrush, which ought to be sold at Walmart. They targeted Walmart employees around Bentonville, Arkansas, where the headquarters is. After spending $28 on Facebook ads, they got the email they were hoping for, asking if Orabrush could deliver 735,000 Orabrushes in a couple of months—and stop the Facebook ad. Mark Dierker/McGraw-Hill Education Page 405 Virtually every industry, sport, hobby, or interest has its own trade shows and events. Regional events are usually a better place for the entrepreneur because you have lower expenses and less competition. Hit the library or Internet to find them, and be sure to have all the answers about cost, delivery, product advantages, and the like. If catalog sales do not feel right and retailers do not seem interested in your product, an e-tailer78 might be willing to take a chance. Because of e-tailers' low overhead and unlimited shelf space, they can afford to take a chance on an unknown firm or product. Sometimes they will carry inventory, but often they just pass the orders on to you for fulfillment. You can find potential sites by doing an Internet search for "e-tailer." Sometimes they will post information on how to submit product ideas, while other times be prepared to dig for phone numbers and names. Craig Winchell, the inventor of Conscience, an interactive board game for teaching children right and wrong, tried the American International Toy Fair, a trade show, with disappointing results. He found that EToys was willing to take a chance. EToys's initial order was six games in 1998; in 1999, Winchell shipped close to 10,000 units.79 With the kickstart from the EToys sales, by 2007 Conscience was sold at 10 online catalog sites and more than 10 retailers in the United States and Bermuda. In the end, though, Craig felt the board game would not give him the financial independence he needed. Today you can find Conscience on sale at several Internet sites, but Craig remains an entrepreneur making his money as a management consultant in Dallas. Companies like Pipecandy.com provide some lists of e-tailers online, and Internet Retailer magazine publishes an annual list of the top 1,000 leading vendors. International Strategies 11-6 Differentiate the types of international strategies. When you are struggling to get through that first year of business, international sales are about the last thing on your mind. The U.S. Department of Commerce, however, indicates that large companies account for only about 2 percent of all exporters, meaning the other 98 percent of the exporters are small businesses.80 Entrepreneurs typically fall into three categories. There are those who realistically will never go international (for example, a restaurant owner or dry cleaner working from a single site). There are those who intentionally start

international businesses81 (for example, import–export businesses), such as Peter P., the director of procurement for a Russian trading company, who saw a trading opportunity with the opening up of eastern Europe and the former Soviet Union. Educated in the United States, he is of Ukrainian descent and speaks both Russian and Ukrainian.82 Last, there are those who think international business might be something they'll do someday way off in the future. This section is primarily for the last two categories. Thanks to the Internet, once a company has a website it is essentially an international business, a whole new breed of firms known as born internationals.83 Potential foreign customers see the website and before you know it—or before you are prepared—the first international order rolls in. Even "website-free" companies aren't exempt. A foreign visitor comes across your products and sees a need for it in his or her country, and here comes that order. Some international orders aren't all that difficult to handle. If the order is small enough, if the product or service is not highly regulated domestically, and if the country is one with which the United States has rather liberal trade such as Canada, the order processing may offer few or no headaches. The customer may use a credit card or international money order, and the product ships in the mail without much more effort than figuring the extra postage. That's OK for the occasional order, but more complex situations will require more time and effort on the part of the entrepreneur. The ideal situation is to consider and prepare an international strategy before it becomes a hit-and-miss method that is too cumbersome or before serious and costly mistakes are made. Entrepreneurs have available to them the same options as large companies including wholly owned subsidiaries, joint ventures, licensing, franchising, and exporting. For most, though, an export strategy is sufficient and is all that is covered in this section. It's usually inexpensive, quick to start, easy to change, and less risky than other ventures. It has the additional advantage of allowing the entrepreneur the opportunity to learn about doing business abroad in case the company reaches the point of moving further. For U.S. entrepreneurs, the U.S. government offers detailed and useful help for exporters, including seminars and other training, export assistance, websites and reports, financing, insurance, and legal and collection assistance. Page 406 Exporting84 Putting together an export strategy involves answering three questions: Are we ready? Where should we go? Whom do we contact there? There are many sources for assistance in answering these questions, and many good ones are free or almost free. One excellent resource is the U.S. Commerce Department's Export.gov site which offers advice by country and industry and online market intelligence on potential markets, and links to services offered across the Federal government to help entrepreneurs export. Question 1: Are you ready to export? Exporting requires a different kind of thinking and preparation from selling locally or even nationally. Are you going to target one country, a region, or the whole world? Do you know what customers want? Do you know what the import requirements are? What aspects will you handle, and which ones will you contract

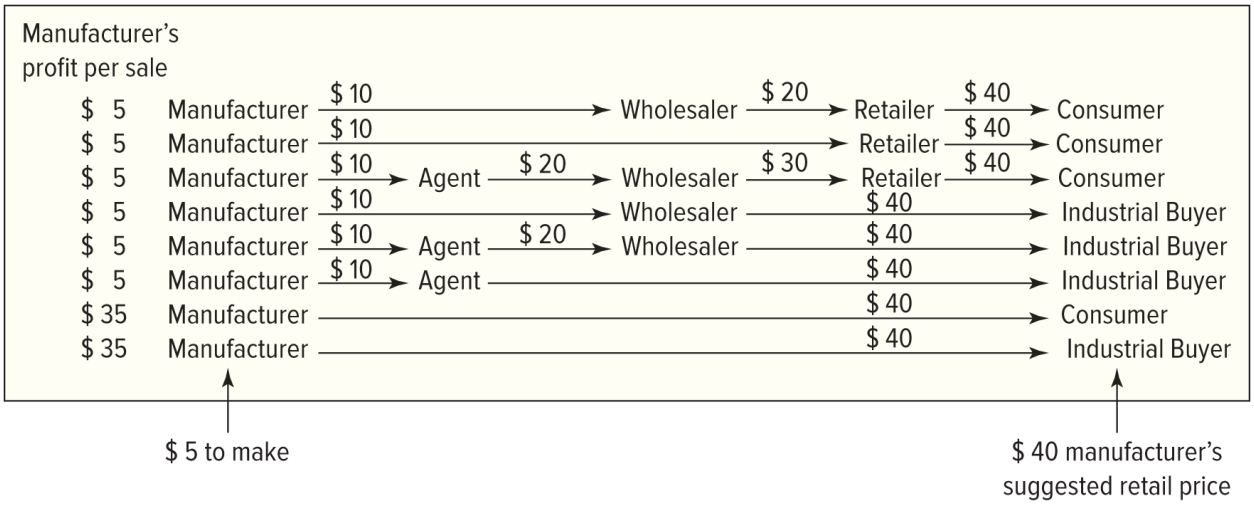
out? Are you ready for the costs and headaches of exporting? To see how you are coming along, you can check your readiness online at the U.S. government's exporting site (www.export.gov), which provides extensive exporting basics. Consider your product as well. Will your U.S.-designed product fit an international lifestyle or needs? Clothing sizes differ—both in how they are numbered and what the sizes mean. A woman's medium in the United States is an XXL in mainland China. Electrical currents differ, as do various other safety and product standards, and the United States is one of only two countries that's not on the metric system.85 There are several ways you can export. One is to use online services such as eBay. Approximately 58 percent of eBay's sales are out of country.86 If you're handling your international business this way, a lot of the rest of this section isn't really for you until you want or need to change methods. Another is to work from personal contacts gained through school, travel, or family. Most exporting small businesses start with countries where they have had personal experience or support.87 These two methods are called direct exporting, since you are selling directly to foreign buyers or distributors. If you want to use outside experts, there are three intermediaries who can help. With indirect exporting, you use agents, export management companies, or export trading companies as intermediaries to handle most of the exporting process. Direct exporters can also get help from freight forwarders. Freight forwarders are specialists in export-related activities including tariff schedules, shipping, insurance, packing, transportation arrangements, customs clearing, and other export details. (By the way, many agents, export management companies, export trading companies, and freight forwarders are themselves small businesses. They know exactly what problems you've faced and are much easier to approach than some megacompany.) The Small Business Administration's Export Assistance Centers (www.sba.gov/tools/local-assistance/eac) can help you find one. Question 2: Where should we go? The United Nations has 193 member countries in the world; chances are not all of them are right for your product. Even if your product should have wide appeal, it makes good sense to pick one or two as first markets. One of the safest bets is to consider countries that are similar to the United States—Canada, United Kingdom, Australia, for example. In those countries you have few language issues, the culture is pretty close to the U.S. culture, the governments and economies are stable, and the people there are likely to want or need about the same kinds of products as people in the United States do. Should you decide to go further afield, those are the same sorts of things you want to look for—language and culture issues, government and legal situations, economic situations, and people's wants and needs. Here's a good time to use those personal contacts mentioned earlier; if they live there, they are likely to be able to tell you if the product makes sense or not. International marketing research isn't cheap and can be difficult to do. Contacts are a valuable resource. Additionally, the U.S. government and world trade centers can give a lot of free or low-cost assistance. See Table 11.2 for a list of

some of the major ones.  TABLE 11.2 Sources of Export AssistanceTable Summary: Table divided into three columns shows list of agencies offering assistance in export business. The column headers are marked from left to right as: agency; website; and assistance offered. Agency Website Assistance Offered Small Business Association www.sba.gov U.S. Export Assistance Centers offer help in virtually all areas of exporting, much for free or at very low costs. U.S. Department of Commerce www.export.gov U.S. government's main exporting site with extensive exporting basics. This extensive guide is available for downloading and contains virtually everything a beginning exporter needs to know. Includes copies of most paperwork and how to fill it out. Regional U.S. Department of Commerce offices www.export.gov/locations/ Offer export seminars on various topics; many are free or under $50. Ex-Im Bank www.exim.gov Offers seminars on export financing. Bureau of Industry and Security www.bis.doc.gov Offers seminars on export licensing and compliance issues. International Trade Administration www.trade.gov/ Has detailed information about U.S. trading partners. World Trade Centers Association www.wtca.org Networks hundreds of local world trade centers, which provide export–import assistance. State and local governments  Often offer convenient seminars and other export assistance programs. Page 407  Question 3: Whom do we contact there? You may already have international contacts through school, friends, travel, or other methods. If so, you're ahead of the game. Even if they cannot help you with specific questions, they probably know someone who can. On the other hand, if you do not have any contacts, many of the government services you have already used can provide lists of potential intermediaries or end users. In addition to the free services available, U.S. Commercial Service (www.trade.gov/cs/) provides a number of levels of fee-based customized services. For $750, it offers its International Partner Search service, which will identify up to five potential businesses to work with you as licensees, agents, distributors, or strategic partners, and prequalify them based on your criteria. The government's www.export.gov site offers a database of sales leads that can be searched for free by industry, region, or country. It is also the point of contact for catalog exhibitions that can get your product or service catalogs into the hands of potential buyers in specific markets (or at specific trade shows) overseas. The Commercial Service has local offices all over the country, which can point you to international trade efforts based out of your locality.  Other good ways to make international contacts are to participate in trade shows and trade missions. In a trade mission, a U.S. government official takes a small group of business owners to different foreign countries in order to help establish relationships and promote exporting. There are not a lot of these missions, and they are usually specific to a particular type of business and region of the world, so they are not always appropriate. At an international trade fair, similar to domestic trade fairs, you have a booth displaying your products or services and the opportunity for exposure to thousands of potential clients. Again, some fairs are

industry-specific, while others are more general. The U.S. government often has a U.S. pavilion featuring export-oriented companies. These companies may have the opportunity to tie into other U.S. government services such as meeting with local U.S. embassy officials, prearranged meetings with qualified customers, market research information, trade barrier information, transportation and customs information, and assistance and access to U.S. trade show experts. Even if you can't exhibit in the fair, attending the fair may give you a chance to meet the sort of people you need to know. Page 408 • Exporting is a major way for small businesses to grow, and today there are more resources than ever before to help you find markets overseas. What would be some of the first websites you would check to find help? Maxx-Studio/Shutterstock The U.S. government through www.export.gov also provides such services as printed and video catalogs, online databases, and personalized (fee-based) contact services. U.S. Commercial Service will also assist a company in arranging private promotional activities, including exhibitions, press releases, and receptions when appropriate. Still another way is to look for foreign companies with a resident representative in the United States, a type of private importing agent. Often these representatives are interested in bringing U.S. products back to their home countries and will already have a good idea if your product is right, and how to promote and distribute it.88 To find these resident representatives, try a Google search with the terms "resident representative" or "U.S. importing site." The next step is to export your products. But there are a few other things to consider first. Pricing becomes complicated as you need to cover transportation, the additional documents you may need, possible tariffs (taxes on incoming goods), potential currency valuation changes, the cost of converting currencies, and the additional packaging necessary to ship abroad. The importer usually covers foreign taxes, tariffs, additional shipping charges, port handling fees, and the like, but this must be carefully spelled out in your contracts in order to avoid potential differences of opinion. Shipping documentation and other paperwork are very specific to the product and the country to which it is going. The International Trade Administration (www.trade.gov) provides extensive information about tariffs, taxes, specific country information, and other general exporting information. The U.S. Country Commercial guides also provide some assistance in this area, as do some country government websites. The Bureau of Export Administration provides information about when export licensing is necessary and also information on exporting of politically sensitive products. There are a variety of payment procedures available. The easiest for you is to require up-front cash payment prior to shipment (or credit card if appropriate). This eliminates your risk, but puts the customer at risk. Providing credit to your customers reverses the risk, and puts it all on you. Both of these are possible methods of receiving payments, but less often used. More typical methods include letters of credit or documentary drafts. In both cases, the payment procedure now includes four parties—

you, your customer, and both of your banks—and payments are made upon proper presentation of certain documents, including the letter of credit or draft, bills of lading, and other paperwork. Although the system is somewhat complex, it provides a lower level of risk for all parties than cash in advance or an open account. You can find assistance about these methods at your current bank.  Financing and insurance become important because of the length of time it may take for international payments to be processed and the risk of default, as well as the difficulty of recovery in case of default in international transactions. The Small Business Administration (www.sba.gov), the Export–Import Bank (EXIM Bank) (www.exim.gov), and the Overseas Private Investment Corporation (www.opic.gov) provide loans and insurance to cover exporting. In some cases, these loans may also be used to finance trade show participation, to translate brochures and catalogs for international distribution, to renovate or expand existing facilities necessary to produce products for export, to set up lines of credit for potential customers, to provide export working capital, and to provide funding for developing an export program.  Page 409  Last is the consideration of conflict resolution. Although the possibility exists for pirating, product misuse, and other unfortunate occurrences, the primary areas for conflict resolution include nonpayment and contract default issues. There is no universal court of law that can handle these situations. The U.S. Department of Commerce can provide advice and offer reputable local counsel, but only for sizable losses, typically several thousand dollars or more. The U.S. Council for International Business (USCIF) is the U.S. National Committee to the International Chamber of Commerce (ICC) (www.uscib.org/icc-dispute-resolution/) which provides international arbitration services and offers some other suggestions. But arbitration, too, is costly and probably not worthwhile unless the loss is significant. This difficulty in international dispute resolution underscores the need to carefully select partners and to do a thorough job of prescreening. This is an area in which various government agencies can help you. The U.S. Commerce Department, for example, prequalifies potential customers in many cases prior to recommending them; you should check the particular program specifics to verify. EXIM Bank provides credit information on potential customers and, as mentioned earlier, many agencies provide insurance for export payments.  Importing Importing strategy is similar to exporting, but with the buyers and sellers reversed. Instead of customers to buy your products, you are looking for sources to sell products to you (which, of course, you'll eventually resell). If you have the opportunity to travel abroad, look for products that are selling well in the country you're visiting and aren't available in the United States or products that are considerably cheaper than similar ones found in the United States (labor and manufacturing costs are often cheaper in other countries than the United States). Trade mission and domestic and international trade shows are also good sources. If you can't travel, ask your international contacts for this information. Next, find out who manufactures them and write the manufacturer a letter,

introducing yourself and your company and the potential you see in your market for its product. You're selling yourself, so be sure to tell the producer why you are the best person or company to be representing the product (i.e., experience in that product or in importing, contacts and distribution systems already in place, familiarity with the market, etc.). International mail can be painfully slow, so a fax or email letter is probably best. Also, avoid slang terms (e.g., "your product is da bomb!") and idiomatic expressions (like "break the ice") that are likely to be misunderstood. Since English is rapidly becoming the language of business, a translation is usually not necessary. Follow up with a phone call or visit in which you can pitch the specifics of your marketing plan for the product.89 One way to conduct international calls and video calls for free is to register for Skype (www.skype.com) and Google Voice (www.google.com/voice). If you and the overseas company both use either of these programs, having long conversations to get an understanding of each other will not pose a financial problem. With importing, many of the paperwork and insurance details will be your source's responsibility. Import buying works the same way as export selling, that is, the same sorts of paperwork and procedures are followed only in reverse. Concluding Thoughts on International Business One of the major mistakes commonly made by U.S. businesspeople (entrepreneurs or major companies) is being insensitive to cultural differences. You're likely to make some mistakes, but take time to learn at least the basics about the culture you're dealing with to avoid the biggest errors. Travel guides and U.S. government country reports often offer brief cultural assistance as do books such as Kiss, Bow or Shake Hands, and a plethora of "doing business in . . ." guides.90 Although international business might seem a little daunting with all the paperwork and regulations, small businesses just like yours do it every day. There's a lot of free or very inexpensive help out there; make use of it.


Manufacturer's profit per sale
$ 5 Manufacturer $ 10 Wholesaler $ 20 Retailer $ 40 Consumer
$ 5 Manufacturer $ 10 Retailer $ 40 Consumer
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$ 35 Manufacturer $ 40 Industrial Buyer
$ 5 to make
$ 40 manufacturer's suggested retail price

FRESH

FRESH SQUEEZED
LEMONADE
Napkins

## ZIP Codes

Enter individual ZIP codes or ranges of ZIP codes

Enter ZIP Codes or ZIP Code ranges by entering the first and last ZIP Codes(ex: 68005-68123).

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| 85037 | | | | |
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**Advanced Selections to Copy and Paste your ZIP Codes**

Don't know what ZIP Code you need? Search for ZIP Codes by City and State

Orabrush
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90% of BAD BREATH is due to a dirty tongue
HELPS CURE BAD BREATH
AS SEEN ON YouTube
Orabrush

Location 11-7 Identify the factors to consider in selecting your business location. When you ask real estate agents the best three things to look for in a house, they will tell you "Location, location, location." The same holds true in your business. What location—in particular, good location—means for your business is highly dependent on what your business is, the amount of money you can afford to budget for it, your particular business philosophy, and the marketing niche you are seeking. Let's start with some general information about location, then move onto specific issues for services (including retailing) and manufacturing businesses. We then discuss some specific choices such as site selection and layout and the buy, build, or lease option. The first choice, and often only choice, for many entrepreneurs is their hometown because it offers convenience and a familiar setting, and it eliminates a lot of possible family issues. There may also be valid business reasons for this choice: The local banker knows you and is more likely to loan you money; you know your market—the potential customers in the area—and understand their wants and needs; you have seen an unmet need that you can fill; and, for many entrepreneurs, friends and family (usually local) are often the first customers and are great at spreading the word about your business. (Remember that word of mouth is often the first method of getting to your customers.) There may also be some compelling reasons to

consider a different location. What are the business laws like in your area? Local zoning ordinances specify what sorts of businesses are allowed and not allowed in specific locations.91 Certain types of businesses—usually those deemed hazardous or noisy—may be banned or severely restricted. State and local pollution standards, workers' compensation, wage rates, and other such legislation might increase the cost of doing business to the point that other locations become much more favorable. State and local taxes in particular vary considerably from state to state. For example, Wyoming has no personal or corporate income tax, while California has relatively high rates. On the other hand, certain locations often offer attractive incentives for new businesses ranging from tax credits to low-interest loans, from favorable business laws to business incubators (discussed later). Most of this information can be found on the Internet. See the Learn More Online box below for additional information on economic development in your area.
LEARN MORE ONLINE Learn more about the topics above at these sites: U.S. government: www.usa.gov/state-business?source=busa U.S. Small Business Administration: www.sba.gov/local-assistance/find/ Site Selection magazine: www.siteselection.com Listing of U.S. chambers of commerce: www.officialusa.com/stateguides/chambers/
Other reasons to consider other locations are tied to your customer. Your hometown may not be the best place for you to find your target market customers. Are you close to the people who will use your product or service? Other considerations include population growth or decline (especially in your target sector), income levels, and predicted increases or decreases in income. Is the location expanding economically or slowly dying? Perhaps the best source for this information is the U.S. Census Bureau's Census Business Builder (https://cbb.census.gov/sbe/#). State and local municipality business development offices may also carry such information, but they are likely to be slanted toward attracting new businesses. Being positioned to benefit your customer can also be key. For example, Zappos's first distribution hub was placed in Louisville, Kentucky, to be close to a major UPS air cargo hub in order to speed delivery. Also consider the type of business you are planning. Do you need skilled labor? If so, what areas will provide you with the necessary employees? Do you need to be near raw materials or particular methods of transportation? These issues will help determine your choices. Where are your competitors? Certain industries tend to be clustered in certain regions where they can make efficient use of services and employees. Think of California's Silicon Valley or the financial district of New York City. Page 411 Doing business in your hometown may be perfectly appropriate; however, the cost of moving a company—whether across town or across the country—can be very expensive. It pays to plan ahead. Service Firms There are three typical locations for services: at the client's location, at a mutually accessible location, and at your firm's location. Traditionally, services may have been tied to one or another of these, but marketing niches have been carved out by people daring to be different. Typically, dry

cleaning and restaurant dining are services provided at a place accessible to both parties, but some dry cleaners now offer pickup and delivery from the client's home, and with services like Grubhub.com and Doordash.com not only pizza restaurants offer delivery these days. Thanks to the Internet, video rental like Netflix.com and other services are handled electronically, and the customer and service provider may never meet face-to-face. Whatever innovative niche you select, there are a few things to keep in mind. At the Client's Location Typically, these services include things such as house or office cleaning, pest control, remodeling, lawn and gardening services, carpet cleaning, and similar services that must be performed at the client's location. Business headquarters can be a home office with enough room to store and maintain any necessary equipment used in the service. Reliable transportation, preferably modified to organize and store tools efficiently, may be required for your business (see Small Business Insight below). More importantly, the range of your client's locations must be planned to prevent transportation times from being unmanageable. For example, facing a one-hour drive to a client's location might mean you have tied up two hours in commuting. If you cannot charge for travel and do not have other clients nearby, it means you have two hours in which you cannot make any money that day. If you've done your homework carefully, you already know the geographic area(s) most likely to use your service. Certain services may be organized into a rotating schedule. For example, a house cleaning service may clean a certain set of neighborhoods on Monday, different set on Tuesday, and so on. In other cases, more remote clients may be charged a transportation fee. In some cases, a mileage fee may be appropriate for your business (delivery services, for example). SMALL BUSINESS INSIGHT Lindzey Patterson and Home Cooking Lindzey Patterson had a real passion for cooking. Even as she was finishing her degree at Saint Louis University, she was planning her next classes at a local cooking school. Her idea was to offer cooking classes in the client's own kitchen. Her business could operate from a van equipped with her cooking equipment and refrigerators for storing food. Reservations could be handled by cell phone. This way, Lindzey had taken a business usually based in a mutually accessible location and made it into a business conducted at the customer's location. In doing so she was able to minimize her costs and personalize her service, called Home Cooking. This, in turn, served as the launch pad for her next business, Coffee Girls Cafe in Kansas City. Today she consults other start-ups in the restaurant industry. As the firm grows, it may outgrow its home-based headquarters. As your clients seldom, if ever, visit you, you have more latitude in where you can be located and the ability to seek out low-cost space (see the site selection section). Reasonable distance to the clients and adequate storage room for your expanded fleet and equipment are key to choosing a site. Page 412 Mutually Accessible Location Services using this approach often have too much specialized equipment to be readily transported and a need for at least some client involvement. Barbershops, dentist offices, and

restaurants are services typically located at a site that is extremely convenient for the client and reasonably so for the owner and employees. Even though your service may be traditionally located in a mutually accessible area, consider what you might do to make it home based (see Chapter 5). Your watch repair shop might generate clientele by being located in a shopping center, but will the added sales be offset by the high cost of rent, utilities, insurance, and other payments? Can you offer pickup and delivery and do the work at home? Your restaurant idea might work as a catering service. Instead of a specialized clothing shop, why not try mail order or Internet-based sales? FoxPaw (www.foxpaw.com) is a cell phone repair service in St. Louis that has over 20 automated kiosks for dropoff and pickup across the metropolitan region to be close to the customer.

- Finding a truly convenient space is one of the challenges of placing one's business in a mutually accessible location. In the example pictured, the owners offer an expanded product line to attract passersby on a busy downtown street. Locating several different kinds of related items in one street-front store gives customers the ability to shop for several needs at one time and place. Kelly/Mooney Photography/Getty Images Remote Location In this type of service, face-to-face meetings with the client are infrequent. Typical services that meet this criterion include medical transcription, data processing, fulfillment centers, and some consulting work. These services generally are ideal for home-based businesses. Certain services, for example, fulfillment centers, generally take more space—at the minimum, an attic, garage, or basement. The biggest advantage of these sorts of businesses is that they can be located anywhere in the world. U.S. hospitals, for instance, use medical transcription services located in India. One such company, InfoFlow/TSVI, operates from a U.S. sales base (which makes handling calls from U.S. hospitals easier) with transcription being done in India, managed there by a co-owner who is a cousin and long-time friend of one of the two American owners.92 Other than perhaps some initial sales meetings, all business is transacted via phone, fax, electronic exchanges, or mail. Manufacturers What if you are selling a product and not a service? What are your considerations about location now? Where you make the product is really dependent on the product. Some products that do not require a lot of specialized or bulky equipment can be produced at home unless zoning ordinances forbid it. In addition to whatever office space is needed, adequate work space is also required. The basement, a garage, or a home workshop may be adequate for some time. As business expands and as you add employees, it will become awkward if not illegal to continue production at home (see Chapter 5). Page 413 Some products require bulky and specialized equipment, utility demands atypical of homes, or sizable warehousing requirements and are never suitable for home businesses. Certain production characteristics—for example, use of hazardous materials and materials with strong odors or noisy operations—may make a home-based business undesirable. Many cities have zoning ordinances prohibiting manufacturing in

residential areas. When you start to hire employees, providing the amenities they will expect or that are required by law will usually require moving the business from your home. One emerging trend are rentable manufacturing spaces. Examples include makerspaces (https://makerspaces.make.co/), which are high-tech workshops with 3-D printers as well as traditional tools; hackerspaces (https://wiki.hackerspaces.org/List_of_ALL_Hacker_Spaces), which focus on programming and app development; or community kitchens—also called shared use kitchens (search for either term online or try rentthiskitchen.com). Local business incubators may also have rentable manufacturing facilities. Contract manufacturing might be a better option, at least for a while. In this case, a firm with the capabilities to produce your product is contracted to manufacture it for you, usually for a flat per unit fee and a possible setup charge. Some firms will also assist in marketing and sales as well. Trade magazines in your field often list ads for contract manufacturers, or Google "contract manufacturing directory." An interesting possibility here is to use sheltered workshops to perform light manufacturing or assembly sorts of businesses. These workshops exist in nearly every state and offer very competitive pricing, often including tax benefits for the business. Site Selection Once you have determined the general location of your business, you need to determine the exact location for your operation. What you should look for falls into three main categories: home-based businesses (covered in Chapter 5), high customer contact (e.g., retail), and low customer contact (e.g., manufacturing). Each has certain criteria to be considered. High Customer Contact Businesses Businesses with high customer contact include such diverse operations as medical or legal offices, restaurants, retail establishments, dry cleaners, and other businesses that are highly dependent on being convenient to the customer. For these operations, there are three critical site selection considerations: traffic, customer ease, and competition.93 First of all, you want a site that is convenient to your target market and to enough of the customers to make you profitable. If you are considering a franchise, many will offer site criteria to help you make your selection. If you are going it alone, consider the population density of the area and how many of the people in the area meet your target market criteria. The U.S. Census Bureau website and a number of free nongovernment sites like www.zipwho.com and www.city-data.com can be a good starting place for free information (see Skill Module 9.3). If plowing through the Census Bureau website doesn't get you what you want, several commercial services mentioned in Chapter 10 including PRIZM and Esri will sell you data about the population in a particular zip code for several hundred dollars. More detailed and specific commercial information is also available and can range in price from several thousand dollars to over $100,000 and is probably not an option for most entrepreneurs.94 Again, the website of Site Selection magazine (www.siteselection.com) mentioned earlier has tools and additional articles that can help. Another consideration is the presence of traffic

generators in the area. These are other businesses that draw customers to the area and may include supermarkets, office complexes, schools, and malls. If the customers are drawn there, for example, to grocery shop, they will be more likely to come by your business too. Reflect on the type of customer you are seeking and the likelihood of these businesses in attracting them. If you want a teen customer, a location near a high school or a mall works well. If you are looking for evening clientele, offices that close at five aren't the right traffic generators for you. Drive around likely areas and locate possible sites. Visit during the hours you anticipate to be peak times for your business and evaluate foot and car traffic.95 Look at the crowds or lines in similar businesses and decide whether there is room for you. If most businesses seem empty, you probably will be too.  Page 414 Intersections of major streets offer high automobile traffic, but because of divided roads and other barriers, they may not make it easy for your customers to get to you. Businesses along interstates have high visibility, but the frontage roads can be so convoluted that the clients seek easier-to-get-to competitors. Even some malls and shopping centers have such tortuous access problems that customers avoid them when possible. Sometimes entry is easy, but getting out is difficult. For example, no signals for left turns when most of the traffic needs to head in that direction can turn off customers.  Parking is also an issue as seen in the Small Business Insight below. Is it conveniently located to your place of business? Do customers need to cross busy streets to get to you? Is parking free or paid? Are parking areas well lit and safe? Are there wheelchair ramps or other accommodations for customers who are disabled?  Customers have strong ideas about how far they should have to drive for things. These vary somewhat from major metropolitan areas to more rural towns and from one region of the United States to another. Generally convenience stores, fast-food restaurants, and gas stations need to be close to consumers. Grocery stores and banks can be somewhat farther away, but not much. Discount stores and midscale restaurants can be even farther away, while specialty stores, upscale restaurants, and malls can be relatively remote. Where does your business fit? How far are customers willing to drive to get to you?  Malls are great traffic generators, but space at malls is costly. If it is appropriate for your product, you might consider a kiosk or cart in the mall as a way of testing the market and location without making a large investment.96 Neighborhood shopping centers (those anchored by a supermarket, drugstore, or major retailer) or strip centers (shopping centers without major anchors) are more modestly priced, but lack the drawing power of malls.97  SMALL BUSINESS INSIGHT Steak-Out Restaurant98 Mark Dukes thought he'd found the perfect location for a restaurant that specialized in the delivery of burgers, chicken, and steaks when he found a location in the middle of the University of Tennessee in Knoxville. Students are always hungry and love delivery. However, during school breaks there are no orders—and also no employees. In addition, there was no parking at his location on campus. After seven years of struggling, Mark

moved his failing franchise off-campus to a freestanding building with a parking lot. His sales went up 100 percent. He still delivered to students, but he got a lot of community business, and a family order would average $30 compared to the student order of $7 or $8. Today he also owns several Steak-Out franchise outlets and Fork River Foods, Inc. Generally, competition in the area can draw away valuable clients, but this is not true in every case. Many cities have a restaurant row, an antique district, or an automobile mile (as well as other business types) where many competitors cluster. Clients wish to comparison shop or have choices and are drawn to areas where they can see several similar businesses at one time. Locating far from these will mean that you are free from competition, but this benefit may easily be offset by the cost of attracting customers to a different place. Additionally, you can capitalize on competitive advertisements that bring potential customers to the area. Your competitor's high-budget TV ad might get customers to the neighborhood, but the "sale" sign in your window may get them to stop at your place instead. Another instance when you want to be near competitors is when your business provides a strong contrast to the competition in the area. Do you offer better assistance, additional services, unique advantages, or other benefits that can easily be seen by customers? They may be drawn to the area by a well-known competitor's name, but they may select your establishment instead because of what you offer that differentiates you. Page 415 • Chicago's Jewelers Row is an example of clustered competitors whose proximity to each other gives customers added convenience and more options. What are some reasons you can think of that illustrate how clustering helps bring more interest and business to an entire area? Peter Ptschelinzew/Alamy Stock Photo Low Customer Contact Businesses Generally low customer contact businesses are manufacturing businesses, the headquarters of client location-based services, or remote location services. Customer access is relatively unimportant. More critical are access for your employees, reasonable cost, and the space necessary to do your business. Certain manufacturing operations will need adequate utilities and specialized transportation too. Unless you plan to use some of this space as a high-traffic showroom, commercial space in a business park or light industrial park might be appropriate. These parks are located near major transportation routes, often have rail spurs, and are designed for industrial utilities; that is, they have adequate electricity, gas, water, waste water treatment, and the like. Frequently, support businesses will be located in or near the park such as warehousing, shipping firms, copy centers, and office supply stores. Industrial or business park space tends to be cheaper in smaller cities and rural towns than in major metropolitan areas. If distribution to customers can be arranged, these locations are certainly cost-effective. Page 416 Some major metropolitan areas offer specialized zones where special support is provided to companies locating there. These are sometimes called empowerment zones or may be economic development zones. These zones, often in economically depressed areas, offer businesses

low-cost space and tax advantages for locating there. For more information, check with your local government or SBDC. You can also see www.rd.usda.gov/programs-services/all-programs/business-programs or www.siteselection.com for different incentive programs to promote businesses moving to certain locations. A third possibility is a business incubator. The International Business Incubator Association (InBIA) (inbia.org) shows over 400 business incubators in North America sponsored by government, universities, or private investment groups. These business incubators are specifically designed for the entrepreneur, and, in addition to relatively low cost space, they offer a multitude of small business support services. These services range from copy machines, faxes, and conference rooms to accounting, finance, and consulting services. Since the building is populated by other entrepreneurs, it's a great place to talk to others who might have had some of the same problems or to brainstorm new ideas. Most incubators require a stake in your company in exchange for their assistance—maybe as much as 50 percent—and often have quite a bit to say about how you run your business. Opinion is mixed on how much real help a company can get; just like all businesses, there are better and worse incubators, so do your homework.99 A variant of the incubator is an accelerator. Accelerators generally focus on helping one type of business (e.g., Internet, biotech, financial tech, toys, fashion, etc.) accelerate their move from start-up to being ready to pitch for investor dollars. Accelerators generally offer cash investment, space, mentoring, and free or low-cost access to professionals like lawyers and accountants. In return, they get a stake in your business. You can find lists of accelerators in the Learn More Online box. There has also emerged in many locales settings called co-working spaces which many consider a type of "incubator lite." These spaces usually offer the basic amenities needed for modern Internet-based work (desks, chairs, copiers, a conference room, and of course, coffee and fast Wi-Fi) in a setting much a library's main room. Directories of the spaces are given in the Learn More Online box. Entrepreneurs rent access by the day, week, or month, and that is all the co-working space gets. Co-working spaces rarely get equity in the businesses they house. LEARN MORE ONLINE Learn more about the topics above at these sites: Business incubators: http://exchange.inbia.org/network/findacompany Accelerators: www.seed-db.com/accelerators http://gan.co/ www.galidata.org/accelerators/directory/ Co-working spaces: http://wiki.coworking.org/ https://www.coworker.com/ https://findworkspaces.com/ General Comments on Site Selection How do you go about finding potential sites? Looking for "for sale" and "for rent" signs is a start, but not all space will be advertised that way. Just as a good real estate agent can warn you about the proposed freeway project going through the backyard of the house you are considering or let you know about houses not yet listed but likely to be, an experienced real estate broker will also be able to assist you in your search for your business location. Many have relationships with landlords that can work to your

benefit. They are also likely to have at least some of the market statistics you may need to help you decide if the location is right for your business.100 Level with them about what you can spend. You have your business plan and know the cost per square foot you can afford and be profitable. If you are looking at property more expensive than that, you'll need to cut corners elsewhere.101 Page 417 Leasing 11-8 Recognize the key issues in leasing. It is rare that a small business start-up buys its first location. The reason is financial. It takes a lot of money to buy a place, and beyond that a long-term commitment to pay for it. For most small businesses, it is not a worthwhile risk. It makes more sense to rent or lease your facility to leave more money for other aspects of the business. But leasing is one of the most complex of the issues an entrepreneur faces when starting a business. In reality, most landlords (especially those from big national commercial real estate and mall companies) have fairly standard contracts that they don't like to change. These typically start out as very pro-landlord. That said, in many cases they are also likely to accept certain standard clauses that are more tenant-friendly. However, it is unlikely they will offer those. You will need to ask for them. In this section you will learn about the major types of tenant-friendly clauses you might want to seek. However, it makes tremendous sense to get a real estate lawyer involved to help you. He or she should be able to tell you what kinds of clauses are typical, who else offers them in your area, and if there are any other likely traps in the lease. You can learn how to choose a lawyer in Chapter 17. You should begin the leasing process by looking for locations. You can start using the local newspaper's or business journal's classified ads for commercial real estate. If you know of a great location, but there is no "for rent" or "for lease" on it, consider asking the owner or current renter about subleasing a portion of the location. If your product or service complements the current tenant, you could find a home. Local real estate websites may also have listings, and there are national websites like LoopNet.com which compile listings from a variety of sources. You may contact a real estate agent with commercial experience to help you, but make sure you know how the agent is making his or her money. You want the agent to work in your best interests. It helps to have two or three possibilities identified before you begin negotiating leases. This is a use of the idea of the power of rivalry from Chapter 7. This gives you a basis for comparison, and an alternative for leasing when negotiating. But note that the more alike the properties, the greater your power at the negotiating table. Also, if you are opening a franchised operation, you will want to contact your franchisor before you start looking for locations. Most franchisors have specifications for locations, and advice on costs and other features. They often have a lease review department to help you with this process.102 The best way to start thinking about the clauses is to separate them into those clauses related to choosing a property, day-to-day operations, and endings. In reality, though, all of these clauses will get negotiated when you and the landlord discuss the lease agreement. There are several issues that could pop up as you are narrowing your choices

and trying to decide which location and deal is the best for you. These are:103 “As is” versus compliant property: If the location has problems, who should fix them? The landlord would like to have you do it, and will try to push you to accept the property “as is.” You, of course, want the landlord to fix it before you move in, so you would ask the property to be “in compliance with all applicable laws, rules, and regulations.” Realize that the landlord will get back the money paid for repairs eventually, through fees or higher rents, but it can save you money on the front end. HVAC: This is the commercial jargon for “heating, ventilation, and air conditioning.” It can be the most expensive type of repair, and since it is mechanical, one of the types most likely to go wrong. The landlord wants it to be your responsibility. You want it to be the landlord’s. This is particularly important if the location has a central air system so everyone shares the same air conditioner and heating equipment. This type of equipment needs to be the landlord’s responsibility. For any type of equipment, you want the landlord to at least guarantee the first year of operation. Signs: Called “signage” in the business, it can be on the street, on the building, or around the door. You probably have ideas for your signs. If you are a franchise, you face signage requirements from the franchisor. You want a landlord who will work with you on the size, placement, and visibility of signs. Make sure you have written agreement on the signs and, if possible, a clause that says approval cannot be unreasonably denied for future changes. Page 418 • This is what no one wants to see—repairs needed for an air conditioner. But who is going to pay for it? What kind of air conditioners are likely to be your responsibility? Fuse/Getty Images There are other benefits possible if you know to ask for them. Often these are called concessions. Examples include “leasehold improvements,” which are permanent changes made to the location to fit your business’s needs, like bringing in a higher voltage power outlet or new drainage. You cover these by seeking a “tenant improvement allowance” or “construction allowance” which are rent dollars (typically $5 to $25 a square foot) you can put into improving your location.104 This amount should be based on a firm estimate from a construction professional. Another concession is a “rent-free use period” which covers the time while you prepare your location prior to opening. As you start thinking about how you would operate day-to-day, there will be several different issues you will face. These include: Hidden charges: Many leases include charges that do not have to be listed in the term sheet given you for the property. An example is a monthly operating expense. This may be justified. You may be leasing a thousand feet of space, but there are also common areas, restrooms, parking and the like that the landlord keeps up for everyone. Ask specifically for a list of all expenses or charges for which you will be liable, and compare to other locations. Also make sure to learn the conditions under which you can lose all or part of your security deposit. Use of premises: You specify in the lease what you will sell or do at the leased location, but too exact a description could prevent you from expanding the products or services you offer. Try to add the clause “and related goods

and services" to any description you give to provide reasonable flexibility. Noncompete: If you have a pet store in a strip mall, you'd like to be the only one there. For many types of businesses, you negotiate a clause limiting the landlord's ability to lease to a competing business. This can be just for your facility or for a radius. You should expect to pay for the exclusivity and the farther you want it, the more it will cost. Note that competition in terms of different types of restaurants, or another store selling some of your products, is still likely. Page 419 Hours of operation: Mall landlords want stores open the same hours and days, and landlords of other types of properties may have some of the same desires. You need to negotiate times that fit your business model. Look for stores in the landlord's properties that match your hours. Pointing out those firms helps here. Rent default: When you are late paying rent, all sorts of penalties and problems emerge. It also hurts your credit rating. Some leases require the renter to keep track. Ask to change the lease to specify the landlord needs to alert you immediately on the rent due date in written or telephonic (usually fax) or email form, and get the 5- to 10-day default period for paying rent before default starts from that notice. Moves and remodels: There may be a clause that gives the landlord the right to move your business elsewhere, at their discretion. If this is to update or repair an area, fine, but what if it is to get a higher-paying tenant in your space? Set time limits and return rights on any forced move. Similarly, if the landlord decides to remodel, you should not have to pay for it. As an entrepreneur negotiating a lease, you need to prepare for the good and the bad as time moves along. The good is the prospect your business grows and you need more space. The bad is that your business doesn't do well, and you need to get out of your lease before the end of the term. Dealing with these issues is like worrying about a prenuptial agreement while you are taken with the romance of getting married. It might be painful to imagine, but it is important to keeping what is yours. If your business falters, you are obligated to continue paying your monthly rent and fees for the duration of the lease. A landlord has the power to let you out of a lease, but he or she is only likely to do this if a better tenant is lined up. Once you tell your landlord you may need to vacate the premises, she or he is supposed to look for a replacement tenant, but not all do, or do a good job of it. If you can find a replacement tenant, it can help this process along, but you need to make sure there is a clause that lets you sublease the property, and further, that the landlord can't unreasonably deny the sublease. If your pet store is closing, finding a dress shop is probably reasonable (as long as it doesn't violate some other tenant's noncompete clause), but finding an adult book store is probably not a reasonable replacement. Three other ways to handle an early termination are to set up a short-term (e.g., 6 months) lease initially, ask for a bailout clause, or for a "cap" or limit on how long you need to continue paying rent. The bailout clause lets you out of the lease if sales do not meet an agreed-to level. You negotiate this with the landlord up front. To understand a cap, think about a three-year lease. If you close down after only 6 months, you are still obligated

to pay 30 more months' rent. With a one-year cap you are obligated to pay only 6 months' more rent. This is like a type of insurance, and like insurance policies, you will probably have to pay a slightly higher rent from the start to cover this possibility. Realize there can be problems you face caused by the property itself. What if you move into a shopping center or mall with a major chain like Lowe's, Target, or Macy's. Part of what you are paying a premium for is the traffic and reputation these anchor stores bring. What if they leave? Your location's quality could dramatically drop. To get out of your lease under these unfortunate circumstances, you want to ask for a cotenancy clause. Although we've segmented a renter's concerns by stage of the leasing process, all of these issues need to be negotiated at the start when crafting a lease. Landlords often start with a lease they call "standard," but nearly everything about it can be negotiated. However, be fair; the space may mean a lot to you but it is a drop in the bucket to large commercial realtors. You can learn more about negotiating in general in Chapter 17, but there are some special considerations for lease negotiations. Because so many aspects are potentially negotiable and areas have different norms for what are typical tenant-friendly clauses, work with a real estate lawyer of your own to help you in the negotiation and phrasing of the lease terms. Page 420 Build, Buy, or Lease105 Ultimately, there are three choices available to the business: build, buy, or lease. Building has the advantage of having the perfect layout in the perfect location and the street appeal of a new building, but it is costly and slow. Buying something already in existence shortens the time and may be somewhat cheaper, but any remodeling or retrofitting that needs to be done may overshadow any time or money savings. In both cases, though, business owners have an asset that they can leverage, as well as the depreciation tax advantage. They have the flexibility to make the changes they need and know what the long-term costs will be. Leasing, which we detailed earlier in the chapter, is an option with a considerably lower initial cash outlay, and it is often the only feasible choice for new businesses. Lease expenses are deductible business expenses. One of the main downsides of leasing is that you are usually limited in the renovations you can do. Another one is that leases tend to get higher with each renewal contract, and your landlord may choose not to extend a lease, forcing you to move before you are ready to do so. The issues of location and distribution are decisions that business owners make only occasionally. Many businesses operate from the same location for their entire existence. Distribution decisions may come up more often. For example, a business started on eBay develops its own website and then grows into a store in the city's commercial center. Regardless of how often these decisions are made, they are central to the success of the small business because placing a business in the right location and equipping it with the right channels of distribution are essential to finding and connecting with customers. Done right, managing the issues of location and distribution can turn an average firm into a major success. Layout 11-9 Know what to look for in evaluating a potential site layout. Since so

much of this is particular to the type of business you are in, what you'll read below is a general guide. Check out competitors or similar types of businesses to see what you like and don't like, what seems to work well, and what seems to cause a lot of problems. In addition, certain categories—restaurants and retailing, for example—have numerous books from college textbooks to do-it-yourself books, like the "For Dummies" series. Try your local library or bookstore. The layout of a potential site must be considered carefully. Is the building setup appropriate for your use? A restaurant will have different needs than a retail area or a manufacturing plant. The amount of area allocated to the "front room" (e.g., eating or retail areas) versus "back room" (storage, kitchen, warehouse, and office areas) needs to be adequate for the purpose of your business. If you are operating a restaurant or retail operation, how important is space in the front room? A coffee shop or fast-food restaurant squeezes in more customers per square foot than a gourmet restaurant. Do you need specialized areas, such as a kitchen or laboratory that are expensive to retrofit into existing buildings? Is there adequate storage area? How much dock space is appropriate for your business? A manufacturing firm usually needs more dock space and storage than a retailer or a restaurant, while a service company may need very little of either. Retail operations need display windows, while manufacturers do not. For restaurants or other services, this need varies. Is there room for expansion should the business grow? Remember: Moving can be expensive. A good strategy is to rough out the desired layout of your operation on graph paper to get a basic idea of the square footage needed and how it should look. What exactly you want may not be out there, but you'll be able to see what's close and what's impossible to live with. Consider the amenities that are already there. Carpeting may be appropriate for a retail area and perhaps the office or dining area of a restaurant, but not appropriate for manufacturing or cooking areas. What about the walls? What sort of ceilings and lighting is appropriate? Again, a visit to the competition will help you decide what works and what doesn't, as well as where you want to be different. Page 421 Check the exterior, too. Is the building attractive and inviting? Are the sidewalks and landscaped areas in decent shape? Is parking adequate, well lit, and safe? Is employee parking separate from customer parking? What about accessibility for people with disabilities? The 1990 Americans with Disabilities Act (ADA) specifies that businesses (with few exceptions) must accommodate persons with disabilities. Many buildings have been brought up to code, and all new construction should meet the requirements of this act, but keep your eyes open. Once the building has been selected, how you lay out the interior also needs to be considered. While retailers, restaurants, offices, and manufacturers all have different layout needs and considerations, two facts hold true: (1) layouts need to be designed to eliminate unnecessary and excessive employee movement, and (2) layouts say something about who you are to your customers, employees, and visitors. In retailing, this last factor is called atmospherics. While the opportunities for variation are limitless, let's

consider the major types of retail and manufacturing layouts as well as what atmospherics might mean to a business. Traditionally, manufacturing processes are laid out in one of two formats: production line layout and process layout, as displayed in Figure 11.5. In the production line layout, material flows in on one side of the operation and continues to the other end of the operation. Most assembly manufacturing is done this way, often with conveyors moving subassemblies from one station to another. Although a rather rigid flow, it works well for mass production and high-volume manufacturing. The second method, process layout, groups similar machines/or functions together, not unlike a typical machine shop. This format is much more appropriate for lower-volume, flexible manufacturing. FIGURE 11.5Typical Manufacturing Layouts There are also two traditional layouts for retail operations, which are shown in Figure 11.6. The first one, the grid layout, has aisles running from the front of the store to the back like the typical grocery, discount, or convenience store. It's a very efficient and organized layout, although it lacks some visual impact. The second layout, the free-form layout, alleviates this problem. In this layout, the store is laid out in sections with aisles that angle or meander through the store. This is the layout more typically found in upscale department stores, clothing stores, and the like. FIGURE 11.6Typical Retail Layouts Atmospherics include all the ambience items that might be considered in your business. An upscale women's clothing store is likely to have wider aisles, deep carpeting, soft "elevator music," indirect lighting, and, perhaps, a lightly perfumed aroma. These are appropriate atmospherics for the target market. A shop catering to edgy teen fashions may be done in black and chrome with loud rock or alternative music and strobe or black lights. Both of these send a message about whom the store is likely to appeal to. Restaurants use atmospherics, too. Compare a family restaurant to a gourmet restaurant to an ethnic restaurant. Services and the office and public areas of manufacturing firms do this as well in their choice of colors, furniture styles, and background music.106 Page 422 The good news is that there are a number of online business floor plan design programs. Some of these programs offer professionally designed templates for particular types of businesses, which can help you see how experts recommend setting up a layout, and this can help you decide how to do the best you can from the start. Several online building plan maker services have free trial periods, or are free in general. Check out the Learn More Online box for details. LEARN MORE ONLINE Learn more about the topics above at these sites: RoomSketcher: https://planner.roomsketcher.com/ Gliffy (gives students up to four years of free use): https://support.gliffy.com/hc/en-us/articles/217895678 Lucidchart (has a free plan with a limit to how complex your design is): www.lucidchart.com/users/registerLevel#/pricing

CHAPTER SUMMARY 11-1 Understand why pricing is an important but difficult task for small business. Owners of small businesses give a great deal of attention to issues of

pricing. The price of a product is a function of the value placed on the product by the customer. Price is directly related to revenue, and is indirectly related to volume. Price is the easiest marketing variable to change. Price is an essential part of competitive strategy. 11-2 Recognize the different pricing strategies that could apply to your product or service. Products tend to be price elastic or inelastic; that is, the quantity sold may vary considerably due to changes in price (elastic) or not (inelastic). Prices are also influenced by the effects of the law of supply and demand, the margins you set, and the value you can show to your customers. In addition to costs and consumers, price setting is influenced by five other factors: company objectives, marketing strategy, channels of distribution, competition, and legal and regulatory restrictions. Page 423 11-3 Understand the types of sales promotion available to small businesses. Consumer psychology has an impact on pricing as well. Through a number of ways, consumers get ideas about what is an acceptable price and what is not. Firms may use a variety of different pricing strategies. Some of the more common ones include skimming, prestige or premium pricing, odd-even pricing, partitioned pricing, captive pricing, and price lining. Dropped prices are hard to raise. Rather than dropping prices, firms should consider using periodic or random discounting, off-peak pricing, bundling, coupons, rebates, and referral discounts. There are different methods for setting product prices, hourly rates, and service package prices. 11-4 Recognize the different types of direct marketing and their pros and cons. Word of mouth is a good starting point and is low cost, but is not controllable and is limited in reach. Direct sales fall into a variety of categories: word of mouth, personal contact, door-to-door, party sales, trade shows and exhibitions, and vending machines. Direct mail encompasses catalogs, flyers, letters, videos, mail order, and anything else that can be mailed, faxed, called, or emailed. Telemarketing has two forms: outbound (calling the customer) and inbound (customer calling your firm). Direct response advertising is any ad that prompts the consumer to make contact with the company by phone, mail, or email. Guerrilla marketing is a term used to describe extremely low-cost or free alternative marketing. It covers things such as doorknob hangers or flyers stuck under windshield wipers. Multichannel marketing refers to giving your customers multiple ways of contacting you—phone, website, or mail-in order forms, for example. Direct selling distribution supports include Federal Express, UPS, and the U.S. Postal Service who offer shipping software and services for small businesses, with fulfillment centers or distribution center partners for larger shippers. 11-5 Learn how to do nondirect distribution. Nondirect distribution requires using wholesalers, distributors, or retailers as well as other intermediaries. The appropriate channel may be discovered by tracing similar products back to their sources. Getting distributors interested may mean starting with direct sales through catalogs or trade shows to establish your product, demand, and reputation. E-tailers—Internet stores—may be willing to take on unknown suppliers and products

because they have low overhead. 11-6 Differentiate the types of international strategies. Entrepreneurs generally fall into three categories in using international strategies: some will always remain local; some are founded specifically to be international; and most believe that international business might be right for them someday, but do not worry about it until that day comes. Small businesses have the same options as large businesses in the international area (licensing, joint ventures, etc.) but most will start with—and may always stay with—an exporting strategy. Exporting has four main steps: (1) determining whether you're ready to export, (2) determining where to export, (3) determining whom to contact, and (4) determining how to begin. Importing: While many of the steps are similar to those for exporting, it is important to know how to find potential products to import and how to make the initial contacts. 11-7 Identify the factors to consider in selecting your business location. Although most entrepreneurs assume they'll operate in their hometown, this isn't always the best location for their businesses. Consider the business climate, where your customers are, and proximity to key resources for your business. Service firms may perform work at the client's location, at a mutually accessible location, or can be remotely located and have limited customer interface. Manufacturers may be home based, but most will be located away from the home. Contract manufacturing is a low-cost way to get started. Site selection choices include home-based businesses, high customer contact locations, and low customer contact locations. High customer contact considerations include traffic, customer ease, and competition. Low customer contact settings include business and light industrial parks, business development zones, and business incubators, accelerators, and co-working spaces. 11-8 Recognize the key issues in leasing. Standard leases are designed to be landlord-friendly. Entrepreneurs seek changes, added clauses, or concessions to make the lease fit their needs and circumstances. Page 424 There are issues around choosing a property, operating the firm, and terminating the business that need to be negotiated up front. The changes, clauses, and concessions typical in one situation or locality will differ from another. Because leases are so complex, the help of a real estate attorney is essential. You can lease, buy, or build (in order of up-front costs). 11-9 Know what to look for in evaluating a potential site layout. Consider the physical layout and size of the building, its amenities, and its exterior. What changes or improvements will be needed, and who will have to pay? Manufacturing typically is laid out in one of two ways: production line or process layout. Retailing also has two primary layouts: grid or free form. Atmospherics tell customers a lot about your business and the type of customers you are likely to service.

KEY TERMS optimum price markup pricing markup margin elasticity inelastic product elastic product law of supply and demand price gouging internal reference price external reference price skimming prestige pricing premium pricing odd-even pricing partitioned

pricing captive pricing price lining periodic discounting random discounting off-peak pricing bundling multiple or bonus pack sales promotion referral discount channels manufacturer manufacturer's suggested retail price direct sales direct marketing direct mail mail order microinventory just-in-time (JIT) inventory telemarketing direct response advertising guerrilla marketing multichannel marketing wholesaler agent retailer e-tailer born international direct exporting indirect exporting freight forwarders letter of credit documentary draft contract manufacturing sheltered workshop traffic generators accelerator co-working space.

DISCUSSION QUESTIONS Suppose you are operating a copy service. You learn that FedEx Office is going to open an outlet just a few blocks away. You are concerned that you cannot compete with the marketing power of FedEx. What is likely to happen to your business if you lower your prices and place colorful advertising banners in the windows announcing the lowered prices? Page 425 While displaying at a craft fair, a representative of a mail order catalog company wants to put your product in the catalog. It will pay you $40 and mark up the product to $55 for the catalog. It estimates that your market share could be substantial and should be dependent only on your production output. You decide to quit your real job and devote all your time to making wreaths, but you want to match your current $50,000 salary. You really don't want to work more than 40 hours per week in actual wreath manufacturing (assume all paperwork, material purchasing, and such takes place beyond those 40 hours). You want four weeks a year for vacation, holidays, and sick days or personal days. Taking into consideration time constraints, the price you will get from the catalog company, and your revised costs, does this make sense? Why do owners and managers of small businesses spend so much time on pricing issues? Some of the most innovative start-ups have been firms that have dared to buck tradition in their distribution choices, like Netflix.com which initially distributed rental videos through the mail from its website, and now streams live. Select four small businesses and come up with unique distribution systems for them. Beyond the differential advantage, what other advantages might a better distribution system give a firm? The chapter mentioned several unique guerrilla marketing pieces that stood out from the rest—the landscaper who used a plastic sandwich bag of decorative stones with his business card and the decorator whose ad was on a wallpaper scrap. Come up with two or three innovative ways of presenting your message. What direct response ads can you recall seeing or hearing lately? Which ones were more effective? Why? Assume you have developed innovative new business software and want to sell it internationally. Without doing any research, come up with a list of likely countries. Why did you choose the ones you did? If the product had been a nutrition bar or soft drink, would the list be different? Why?

EXPERIENTIAL EXERCISES For one week collect all the coupons you find in newspapers, magazines, mail, and so on. What percentage are for products or services or brands that you would actually buy? Typically, how many coupons do you use in a week? Pull all the coupons for one product category and visit a store. Are there other brands of that same product that do not have coupons? Is the store engaging in any other methods to attract customers—rebates, sales, contests, multipacks, and so on? Paul Scheiter's firm, HedgehogLeatherworks.com, makes high-end sheaths for knives. One of his customers, Ian Atkinson, is a big fan and also a leatherworker, and provided his analysis of the pricing behind one the Hedgehog's most popular sheaths. See the video at www.youtube.com/watch?v=NYqmSzx_LRs. Based on this example, explain in your own words how elements like design and quality of construction make a product worth more than just the cost of raw materials and an hourly wage for leatherworking. The first 14 minutes give you the pricing discussion. The last 7 minutes show you what you would have to do to make a similar sheath of your own. Choose a business that you might someday like to start. Try the www.infousa.com website described in Skill Module 11.2 and locate a list that you feel would be appropriate to reach your market. Which list did you select and why? What would it cost? Select a major high customer contact business category (restaurant, retail, dry cleaning, hair salon, etc.) and visit two or more different providers. What do you see in their store layout that seems to work well? What suggestions do you have for things that might work better? Visit two stores, one where you belong to the target market and one where you do not. Make a list of all the atmospherics you detect and explain how they appeal to the target market. Keep a list of direct marketing you experience for a week. Which messages did you find particularly appealing? Why? Which ones were you more likely to ignore?

MINI-CASE THE MULTIPLE MARKETING EFFORTS OF FLIPOUTZ107 After creating Flipoutz (flipoutz.blogspot.com, facebook.com/flipoutz) in 2008, we applied to Shark Tank and we knew the "sharks" would want to see impressive sales of our wristband with coins you could flip out and trade with other kids. We used the traditional routes such as using social media, hiring a sales representative to focus on small retail and independent toy stores, and attending trade shows, but we also tried our own unique approach. We created the "Flipoutz Kidz Force" to teach kids about entrepreneurship using our products to create their own business. They could buy Flipoutz wholesale or use our sample kit to take orders, then become a brand ambassador to sell to their friends and keep all of the profits! Each child that joined Kidz Force participated in weekly conference calls, received monthly newsletters, and got a training binder that taught the children how to become a brand ambassador. It was also important to us that we use Kidz Force to teach entrepreneurial

skills, so our newsletter and calls focused on how kids could grow their business, as well as tips on making presentations and problem solving. Our marketing had to follow the Children's Online Privacy Protection Act (COPPA) which regulates how businesses can interact with kids online. Although it required a substantial investment, we subscribed to a service that provided constant oversight of our online activities to ensure COPPA compliance, as well as a state-of-the-art technology for our website that flagged bad words, slang words, and personally identifiable information. Since we had to be careful about marketing to kids directly in the digital world, we let our Kidz Force ambassadors reach our end users—the kids! An important note is that we were careful to make sure involvement in Kidz Force was conditioned on having a parent or teacher as an initial contact and sponsor. This guaranteed our investment as well as keeping us COPPA compliant. We also focused on trade shows such as the Chicago Toy and Game Fair, the New York Toy Fair, the Southern Christmas Show, and the Atlanta International Gift Market to get into stores. We even brought Flipoutz to local events of all sizes, from the small Irmo Okra Festival to the giant South Carolina State Fair! My siblings and I worked five or six trade shows and festivals a year and found that our young age (8, 12, and 14 at the time) was a great way to attract buyers to our booth. We also made ourselves available to promote the product in stores. Small retailers often took us up on the offer and appreciated the extra marketing help. Through these efforts, we were eventually carried in over 300 independent retail stores across the country. After appearing as the first children to pitch in the Shark Tank and seal a deal with three "sharks," we became visible to kids all across the nation who were excited to do what we were doing and become a part of Kidz Force! CASE DISCUSSION QUESTIONS Why do you think Flipoutz used so many different types of marketing? What were the different marketing techniques contributing to sales? Using kids as brand ambassadors is particularly complex because of the COPPA regulations, but in looking for brand ambassadors in general, what would you look for in a person? For Flipoutz, personal selling was done in multiple venues, to multiple audiences. How would you vary your sales pitch for Flipoutz when talking to prospective kid brand ambassadors, small retailers, and sharks on Shark Tank?

PART FOUR Accounting, Cash, and Finance in the Small Business • CHAPTER 12: Small Business Accounting: Projecting and Evaluating Performance • CHAPTER 13: Cash: Lifeblood of the Business • CHAPTER 14: Small Business Finance: Using Equity, Debt, and Gifts • CHAPTER 15: Assets: Inventory and Operations Management • CHAPTER 16: Small Business Protection: Risk Management and Insurance